



FOREIGN  
BROADCAST  
INFORMATION  
SERVICE

# ***JPRS Report—***

# **China**

**DISTRIBUTION STATEMENT A**

**Approved for public release  
Distribution Unlimited**

19980113 168

**[DTIC QUALITY INSPECTED 3]**

# China

JPRS-CAR-92-091

## CONTENTS

3 December 1992

### ECONOMIC

#### NATIONAL AFFAIRS, POLICY

Economist Yang Qixian on Improving Economy [JINGJI GUANLI 5 Aug] .....	1
Socialist Market Economy Adopted as Guiding Principle [Hong Kong CHING CHI TAO PAO 12 Oct] .....	6
Enterprise Reform Requires Policy Breakthroughs [JINGJI GUANLI 5 Aug] .....	8

#### PROVINCIAL

Sichuan Gains From Property Rights Transfers [LIAOWANG 5 Oct] .....	11
Bai Qingcai Comments on Northwest Trade Fair [SHAANXI RIBAO 20 Sep] .....	14
Government Circular on Disaster Relief Work [SHAANXI RIBAO 22 Sep] .....	15

#### FINANCE, BANKING

Securities Market Development, Future Policy Options [ZHONGGUO WUJIA 17 Sep] .....	17
--	----

#### SMALL-SCALE ENTERPRISES

Private Enterprises Emerge as New Economic Force [ZHONGGUO JINGJI TZHI GAIGE 23 Sep] .....	22
Survey on Private Enterprise Problems, Solutions [ZHONGGUO JINGJI TZHI GAIGE 23 Sep] .....	28

#### TRANSPORTATION

Gansu To Establish Air Route to Hong Kong [XINHUA] .....	31
Railway Coordination Meeting Held in Shijiazhuang [Shijiazhuang Radio] .....	32

#### AGRICULTURE

Liu Zhongyi on State of Rural Economy [NONGMIN RIBAO 29 Sep] .....	32
Analysis of Burdens Borne by Peasants [ZHONGGUO NONGCUN JINGJI 20 Aug] .....	33
State Council Circular on Management of Contracts [JINGJI RIBAO 11 Oct] .....	37
Analysis of 1992 Grain Market [JIAGE LILUN YU SHIJIAN 20 Aug] .....	38
Cash Income of Rural Households Jul-Sep 1992 [CEI Database] .....	39
Cash Expenditure of Rural Households Jul-Sep 1992 [CEI Database] .....	40

#### TAIWAN

Recent Development of President-Premier Friction [HSIN HSIN WEN 23 Oct] .....	41
---	----

## NATIONAL AFFAIRS, POLICY

**Economist Yang Qixian on Improving Economy**  
*93CE0089A Beijing JINGJI GUANLI [ECONOMIC MANAGEMENT] in Chinese No 8, 5 Aug 92 pp 6-11*

[Article by Yang Qixian (2799 0796 0341): "We Need To Clarify Conditions, Seize Opportunities, and Focus Our Efforts on Improving the Economy"]

[Text] Comrade Deng Xiaoping's speeches on his southern tour this spring and the CPC Central Committee Politburo's conference report have both clearly emphasized recently the need to further emancipate our thinking, seize opportunities, speed up the pace of China's economic development, reform and opening up, and focus our energies on improving our economy. I am offering below certain approaches and suggestions based on my personal work and study experiences.

### I. We Need To Act Realistically, by Summing Up Our Experiences To Correctly Analyze the Current Major Difficulties and Conflicts That Are Limiting Our Economic Development

Making a full and correct assessment of China's immediate economic conditions that is consistently realistic, is the starting point for our continued economic progress, as well as our basic standpoint for further economic growth. This will be of indispensably key significance to our capability at our current stage of development to truly seize the opportunity to raise our economy to a new and higher stage of development as quickly as possible.

While China's economy is now generally better off due to the three years of improvement and rectification, we are still facing rather complex conditions, which can be seen mainly as follows. If we emphasize our improvements, we can find many quite vivid examples. For instance, our industrial output growth rate is very high, our inflation index is down, our foreign trade is expanding very rapidly, our opening up to the outside world is gratifying, our living standards are continuing to improve, our commodity supplies are abundant, our markets are flourishing, and our public morale is stable. But if we emphasize our lack of improvement, there are also quite a few very grim realities. For instance, we still have a longstanding problem of more industrial output than sales, we still have large overstocked inventories of many commodities, our credit funds are expanding very sharply, our "triangular debt" is very large, our economic efficiency is down sharply, our budget deficits are increasing, our peasants in many places are achieving increased yields without earning more income, most of our state enterprises are sustaining severe real and potential losses, and we are experiencing many production operation difficulties. In short, our basic trend is that our short-term growth or quantitative indexes are generally better or much better, while our development stamina or efficiency indicators are mostly not so good or very poor. This shows on one hand that China's macroeconomic control has still not essentially overcome its longstanding

defect of "deregulation leading to instant chaos, but control bringing stagnation" to truly get onto a path of basically coordinated development where overall balance can be maintained conscientiously and timely and rational adjustments can be made. But it also shows on the other that despite three years of improvement and rectification, many of our deeper economic problems have not yet been solved well, leaving us still far from being in a good cycle. It could even be said that certain aspects of our operations are even more out of order in certain key links, such as production, circulation, distribution, and consumption. Unless we determine to turn this around as quickly as possible, while the huge economic foundation that we built in previous years means that we are fully capable of continuing to maintain a certain degree of short-term growth, so that we are not facing great danger, as time passes we are bound to gradually exhaust our current economic might, which will lead to new economic instability and cause great difficulty for our next stage of development, so that our prospects will be extremely poor.

How could such a sharp contrast have appeared in China's current economic situation? An analysis of the general factors and trends shows that it is due mainly to the following two major deep economic problems of medium and longstanding duration, which despite undergoing three years of improvement and rectification, have certainly not been properly solved: 1. None of our irrational economic structures, including our industrial structure, our product mix, and our enterprise organizational structure, have been adjusted effectively. 2. None of our state enterprise operating forces, either internal or external, that are out of line with socialized large-scale production and commodity economy development, have yet been properly converted. Thus, our current clear proposals, that we need to conscientiously adjust our economic structures and convert our state enterprise operating forces, are absolutely essential and correct.

But China's economic development history shows that these irrational economic structures and enterprise operating forces have existed for three or four decades now. While such structures and forces have certainly made it very hard for us to improve our overall economic and enterprise performance and efficiency all along, except for the man-made "blind direction" during the few years of the Great Leap Forward, we have certainly not experienced such a huge decline as the current one that has steadily worsened to the point where all state enterprise losses now far exceed their profits. For instance, in the three years from 1988 to 1991, our state-budgeted industrial enterprises suffered a decline in their realized profits of 68 percent, with their profits and taxes paid to the state down over 80 percent, their retained profits down 43 percent, and their rate of profit on capital funds down 78 percent, leaving only 2.2 percent. Their overall losses were up 400 percent, exceeding their overall profits by more than one-half, with the percentage of losing ones up almost three times to as high as 70 percent

when including those that reported profits but actually incurred losses. In some regions and cities, liabilities already exceeded assets for all enterprises combined. These problems fully show that our current economic plight was caused not only by our historically-longstanding irrational economic structures and enterprise operating forces, but also by more immediate factors. It will be only through acting realistically, by summing up and analyzing conscientiously to clarify the crux of the problems, and then suiting the solutions to the problems for a comprehensive rectification, which will conscientiously solve existing problems in a direct way while making timely structural adjustments and force conversions that could possibly bring good results. Otherwise, structural adjustment and mechanism conversion are very likely to become common slogans, with no real change in operations, difficulty in making progress, and even problems accumulating to the point where most state enterprises will unavoidably end up in an even more passive situation.

So what do these immediate factors actually consist of? From an analysis of China's economic development changes in the last three years or so, I believe that the most crucial one remains our clear macroeconomic imbalance, i.e., our severe overall imbalance between supply and demand. It is just that there has been a change of focus, with the pre-1988 improvement and rectification problem being inadequate effective supply, showing up as overall market shortages, too high price indexes, and economic disorder, while the current problem is inadequate final demand, showing up as a market sales slump, large-scale overstocking of commodities, and sharply declining economic efficiency. The crux of all of these problems is macroeconomic.

Successive years of lax macroeconomic control, with capital investment and consumer growth both excessive, had brought a clear economic imbalance to China by 1988, with demand exceeding supply, causing higher than double-digit inflation and a wave of nationwide panic-buying. While this means that the improvement and rectification campaign begun in 1989 to appropriately cut back on demand and maintain stable economic growth was absolutely necessary, its actual results were that it not only clearly cut back on demand too much, but also went on for too long. For instance, while our real national fixed assets investment was 449.7 billion yuan in 1988, it was cut back to 413.8 billion yuan in 1989, for a nominal cutback of 8 percent but a real one of 25-30 percent at comparable prices, rose in 1990 to 445.1 billion yuan, for a nominal cutback from 1988 of 1 percent but a real one of 20-25 percent, and rose in 1991 to 527.9 billion yuan, for a nominal increase over 1988 of 17 percent but a real cutback of about 10 percent. Consumption, as indicated by national retail commodity sales turnover, was nominally up 8.9 percent in 1989 over 1988 but really down 7.6 percent at comparable prices, with its nominal increase from 1988 to 1990 of 12 percent being a real cutback of 7.2 percent, and its nominal increase from 1988 to 1991 of 26 percent being

really a rough return to its 1988 level when corrected for inflation. This means that by 1991, our national domestic demand, including investment and consumption, was still lower than its 1988 level.

On the other hand, our domestic production in the last three years, due to the huge potential formed over a decade of reform, continued to maintain a certain rate of growth. For instance, our GNP went up 3.9 percent in 1989, 5 percent in 1990, and 7.2 percent in 1991, for a three year accumulative rise of 17 percent, while demand fell for successive years. This is what turned China's overall macroeconomic order from a clear shortage of effective supply in 1988 to a clear shortage of final demand. Thus, market sales decreased clearly for both capital and consumer goods, so that the slow commodity sales that had appeared by the third quarter of 1989 had turned into a market slump by the fourth quarter, and then by years' end into negative growth of industrial output, as well as glaring circulation problems and conflicts in four 100-billion-plus-yuan economic operations. That is, from 1988 to 1989, urban savings deposits increased over 100 billion yuan, fixed assets investments were cut back more than 100 billion yuan, commodity inventories rose over 100 billion yuan, and "triangular debt" arrears among enterprises grew more than 100 billion yuan. In other words, even though saving deposits grew so much in 1989, if investment demand had not been cut back by over 100 billion yuan, the increased commodity inventories of over 100 billion yuan might have been sold out, so that the over 100 billion yuan in "triangular debt" might not have occurred.

While a few units naturally recommended increasing some investment as quickly as possible to increase final demand and put an end to the market slump, as economic operations in all socialist countries had always been subject to supply shortages, and the traditional concepts and work practices due to inadequate demand had not been experienced, the majority of people still thought subjectively that the market slump was merely a temporary chance phenomenon. They generally accepted that supply was still inadequate, and even emphasized that the economic cutbacks had not yet taken effect, so must be continued. So to adapt to the coming possibility of personnel placement difficulties after further supply shortages and industrial production rate decreases, state enterprises quite naturally practiced a method that violated the law of market supply and demand, by taking advantage of the large increase in savings deposits and the relative abundance of social funds to sharply increase their working capital loans, in support of industrial production growth and increased commercial and commodities purchasing to bring the "reservoir" effect into full play. Moreover, while this method was sustained for two or three years, it increased investment some, but not much. This caused three consecutive years of both fixed assets investment and consumer demand being essentially lower than in 1988, with overstocked inventories and "triangular debts" not only not shrinking, but even growing year after year, all the way up to the first quarter

of 1992, when they were still continuing to grow. This shows that the trend of inadequate overall demand in our macroeconomic balance had still not basically changed.

This method of economic operation which used large amounts of credit funds to prop up state industrial enterprises' production and economic growth rates, but turned quite a few of their products into overstocked inventories and mutual payment arrears because of clearly inadequate final demand, unavoidably caused the glaring problems of enterprise products being severely unmarketable, slow fund turnover, heavy interest-payment burdens, steadily rising costs, declining efficiency, and most enterprises sustaining losses or reporting profits but really sustaining losses, and getting by only through the use of state assets and bank loans. This not only left over 100 billion yuan of the public's increased savings deposits and large amounts of state construction capital in overstocked inventories, being steadily devalued or reported as losses and creating a huge waste of financial resources, but also left state enterprises with an unlimited fund supply and even continuing to eat out of the state's "big pot" despite losses, which faced them with no risks, severely damped their initiative to conscientiously adjust their structures and convert their operating forces, and thus further exacerbated the many abovementioned difficulties and conflicts. Practice has proven that this is the major obstacle that we are facing in our current attempt to speed up our economic growth.

## **II. We Need To Suit Solutions to Problems, by Balancing Supply With Demand To Achieve Normal Production Operations and Essentially Balanced Growth as Quickly as Possible**

The above analysis shows clearly that to eliminate the sharp contrast in our current economic situation, by consolidating and developing the good aspects and overcoming and alleviating the not so good ones to promote normal economic operations and faster growth, we must do the following things: 1. We must first rationally increase final demand to solve our problem of overall imbalance between supply and demand, so that the products that we produce can be marketed and stop adding to our inventory waste. 2. Then we must gradually absorb our existing over 100 billion yuan worth of overstocked products to turn their tied up funds into usable ones, so that we can gradually reverse our high-input low-output order of recent years, and push our overall economy into a new and higher stage of development as quickly as possible.

Of course, we must also be aware that as China's macroeconomic control has still not developed regulation and control methods that are both in line with commodity economy development laws and also effective, our emphasis on accelerated economic growth is often quite likely to turn into unconditioned and unchecked expansion everywhere. Unless we control things well, we are likely to experience a new round of

economic expansionism that will create economic shortages again and force us to make another adjustment. While we may subjectively wish to go faster, this could result in failure, so that it should be prevented no matter what occurs. Thus, when setting out to increase final demand, we must make conscientious analyses, multilateral contrasts, assessments of pros and cons, and timely, appropriate, and right choices and decisions in the following three areas:

### **1. We must correctly choose the key economic field in which to increase final demand.**

While social demand comes from many areas in all countries, final demand is essentially made up of the three major parts of investment, consumption, and net exports (overall exports minus overall imports). In light of China's current conditions, the most ideal method would be to sharply increase our commodity exports to spur domestic production while increasing our national foreign exchange earnings. Our increased export demand in the last three years has absorbed over one-half of our increased GDP, and even more than 80 percent in some years, which has played a key role in propping up our economic growth during these years and keeping our growth rate from declining even more. While we should continue this as much as possible, we must also be aware that if a country's net exports grow too fast and its foreign trade surpluses become too large, this will be bound to arouse much trade friction. As this problem already exists to a certain extent, we cannot rely simply on striving for more exports to solve our final demand shortage problem. While higher consumption could increase public purchasing power to stimulate final demand, it is generally very difficult for it to bring expanded production capability and increased economic growth stamina, and it could even turn into a case of "gone never to return," which would add to our enterprise and state burdens. This means that this route is also one not to be taken rashly.

This leaves us the option mostly of increasing investment demand. As 50-60 percent of increased investment goes to the purchase of materials and equipment, while 40 percent becomes wages and bonuses paid to employees, it actually also increases consumer demand. This not only enables the products that enterprises make as well as part of their overstocked inventories to be more easily sold to truly realize their value and use value, but also increases a number of fixed assets and raises production capability, providing an indispensable basis for faster economic growth, and killing more than two birds with just one stone. Nor under current conditions does it involve much risk.

### **2. We must choose well the development projects in which to increase investment.**

China is in the midst of an economic takeoff with many needed investment fields and projects. Increased development investment should neither be rushed into so that projects spring up everywhere, or occur so slowly that no

progress is made. Rather, we must take a broad and long-range view, by choosing key development and construction projects well, and truly putting our limited resources to the best use to prevent duplicate low-level development that would create new waste and losses.

In light of China's current economic realities, the key limiting factors in our faster growth are still infrastructure and basic industries, such as railways, transportation, postal services, communications, power, and water supply. In particular, our railways and transportation are severely unsuited to our economic growth needs. We are fully capable of taking advantage of this opportunity to focus our energies on emphasizing a number of such projects. The state should mainly make good overall plans, while leaving the funding to be raised in various ways, such as more joint investment and issuing of stocks and bonds. This could effectively guide as much local and social capital as possible into investment in urgently-needed development projects to reduce duplication and unchecked manufacturing industry development, while alleviating the current pressure of severe transportation shortages to create extremely valuable conditions for further economic growth.

In fact, we are already late in going into action in this area, so are a number of years behind. When the market slump had just begun and commodity sales were slow in the last half of 1989, if instead of adopting the method of additional working capital loans that turned into overstocked inventories, we had increased our investment in surplus manpower and material resources, by setting them to work in an organized and guided way to build such infrastructures and basic industries on a large scale, these shortages and "bottlenecks" of the last three years might already have been fixed, and we would be able to take much more initiative in speeding up our growth now. As "it is still not too late to mend the fold even after some of the sheep have been lost" as to either need or possibility, we must not let this opportunity slip away again.

### **3. We must choose the correct path that can increase investment without causing economic expansionism.**

While we need to increase final demand and expand our development investment to put an end to our current economic conflicts and difficulties as quickly as possible, so that we can speed up our pace of economic growth, our immediate reality is a sizeable shortage and inadequacy of funds. So what should we do? We can proceed only in the following two ways: 1. We can emphasize certain steps that could increase our social wealth without much investment, such as upgrading technology, improving quality, increasing variety, enhancing management, and lowering cost to increase our capital accumulation through better efficiency. 2. We can rationally adjust our fund investment structure, by actively exploring a path that can increase investment demand without essentially going beyond the bounds of the "cage" of state-stipulated overall fund balance and control. It could be said that success will be truly achieved

wherever such a path is found. Based on our current realities, we could study and carefully apply at least the following policies in this area:

1. We could appropriately adjust our fund investment structure to improve our fund use performance. It should be acknowledged that while China's current annual fund investment is certainly not small, our problem is our irrational investment structure that leaves the proper full impact of many funds not being brought into full play. For instance, while our credit funds had increased to over 320 billion yuan in 1991, or almost twice that of 1988, far exceeding our GNP growth of 17 percent and our gross value of industrial output growth of about 30 percent for the period, only about one-quarter of these loans were used for fixed assets investments, while three-quarters went to increased working capital, a sizeable amount of which became ineffective demand by becoming tied up in additional overstocked inventories in warehouses. If we can appropriately cut back on some of these working capital loans, while correspondingly increasing some fixed assets investment loans, we can turn this ineffective demand into final demand without increasing our overall credit scope, and while appropriately increasing our development investment. As to the possible fund turnover difficulties that this might cause for some enterprises, we could combine cutting back the production of unmarketable products with limiting the production of overstocked inventories, which would contribute to a rational adjustment of enterprise structures and product mixes, while further increasing our social production capability.

2. We could appropriately increase direct financing to use more of our social capital for development. While China's state revenue is now tight, we have more social capital, with a great public initiative for buying stocks and bonds and making direct investments. This is an excellent prerequisite for faster economic growth. If we can appropriately increase stock and bond issues, in order to use more of our social capital for focused and planned developments, including fundraising through stocks to develop certain key projects, as well as further developing all sorts of nonstate-funded enterprises on a large scale, particularly township enterprises, in order to fully use and bring potential investment by all parties into full play, we will not only be able to expand our development fund sources and lighten increased credit and currency issue pressures without increased state investment, but also will be able to transfer some consumption funds into development capital, in order to promote faster economic growth.

3. We could conscientiously improve our investment climate to attract and use as much more foreign investment as possible. Since Comrade Deng Xiaoping declared clearly that China would not only persist in, but also would speed up its pace of reform and opening up, foreign firms, including China's Hong Kong, Macao, and Taiwanese enterprises, have been very enthusiastic about investing in mainland China. We could better

pave the way for this, by expanding our foreign investment fields and limits, and through adopting various policies, such as wholesale land leasing, tract development, developing "the three kinds of foreign trade" enterprises and "three imports and one compensation," running our special economic zones and enterprise development zones well, and appropriately taking on a little more foreign debt or increasing our fundraising on international money markets, in order to increase our development capital to make up domestic investment shortage. As long as we persist in acting in accordance with China's pertinent legislation, by providing the necessary policy guidance, in order to ensure that these investments and funds perform well, they will contribute to our faster economic growth without incurring any unavoidable risks.

4. We could appropriately speed up our pace of price and government institutional reform to economize as much as possible on certain revenue fund investments. As China's prices are still irrational, our state burden for financial subsidies and enterprise losses is up to tens of billions of yuan a year, government institutions at all levels are bloated, and our administrative spending far exceeds our economic growth, our state revenue is severely overburdened. Moreover, all parties are reacting strongly to the various unhealthy tendencies, and even corruption and waste that this often causes. If we can appropriately speed up our pace of reform in these areas, by adjusting certain oversubsidized product prices to more rational levels as quickly as possible, changing all "dual-track pricing" to single-track pricing, and conscientiously streamlining government institutions at all levels, particularly by practicing more specialized management, cutting staffs, and sharply cutting back on our administrative spending, we could save and use a large sum of revenues on development investment, and sharply reduce our defects of unhealthy tendencies, corruption, and waste, while effectively speeding up our conversion of economic operating forces and government functions, and bringing market forces into fuller play.

5. We could appropriately use some of our foreign exchange balance to make up fund shortages for certain urgently needed development projects. China's foreign exchange balance has increased rapidly in recent years, playing a key role in raising our international prestige and debt repayment capability. In light of current conditions, we are already capable of slowing our foreign exchange balance growth rate or reducing the balance somewhat as necessary, in support of domestic economic development. As long as we act in moderation, this will not affect China's international payments capability, while it will expand our development without credit expansionism, develop import substitutes, and further enhance our export capability.

6. We could better develop and perfect our banking reforms, so that we could invigorate our existing capital as much as possible. This is one of the weak links in our current reforms. Our most pressing current need is to

resume as quickly as possible certain effective pre-1988 measures, such as linking savings to loans with balance control and more loans based on more savings and income, separating special bank policy loans from business loans, and gradually making bank operations more businesslike, so that we can fully use as much of our social capital as possible, speed up our fund turnover rate, improve our fund use performance, and not increase overall funds from a nationwide perspective, while sponsoring more development within these fixed limitations of scale.

In short, while the major existing conflicts in China's economy are certainly irrational structures and forces from a system reform perspective, meaning that we must determine to make the necessary adjustments and conversions to essentially solve our problems, why is our present efficiency so low and why are our current losses so large from a growth analysis perspective? The crucial problem remains in one of our basic overall economic operations, i.e., our severe imbalance between overall supply and demand. Particularly in China's socialist economy, supply shortages have occurred repeatedly, so that we can easily discover and take note of them, as well as having rich experience in dealing with them. But as demand shortages have never occurred before, and have never even been heard of, they are harder for people to understand and notice, and it is very easy to regard larger supply than demand as a good thing, leading to a longstanding lack of determination to deal with it. In fact, severe demand shortages, just as severe supply shortages, can have a disastrous impact on our economy. All of the common capitalist economic crises are essentially due to overproduction and inadequate demand. Inadequate demand means that enterprise production capability is not brought into full play, products are not sold, investments are not recovered, and even that regular debts are not repaid, forcing bankruptcy. As enterprise bankruptcy means that banks do not recover their loans, creating a large amount of bad debts and causing bank payment difficulties, banks are forced to close down too. Such interdependency finally causes a large drop in production and a full-scale crisis. But under socialist conditions, there is mostly a publicly-owned economy, while man-made factors that cause steadily increasing loans and mutual debt arrears among state enterprises in particular may make it possible for a given period of time to avoid full-scale economic crises caused by large-scale enterprise bankruptcies and bank closures, they unavoidably lead to a production situation of high input, low output, rapidly declining efficiency, and regular operating difficulties, which cannot go on for long. Thus, if we can accomplish the abovementioned three tasks well, by persisting in premising our actions on not causing a recurrence of economic expansionism, while appropriately increasing certain fixed assets investments, increasing final demand to achieve a rough overall balance between supply and demand, conscientiously carrying out related economic reforms, spurring all parties to consciously emphasize and improve their investment performance, and combining increased

investment well with structural adjustment and mechanism conversion, in order to achieve the best results possible, these will be the key steps that we must take so that we will not only be able to implement the spirit of Comrade Deng Xiaoping's speeches, by taking effective steps to speed up our economic growth rate to a new high in the 90's, but will also be able to swiftly eliminate and alleviate our current economic difficulties to keep from landing in an even more passive position. It is hoped that this will arouse widespread attention.

### **Socialist Market Economy Adopted as Guiding Principle**

*93CE0084A Hong Kong CHING CHI TAO PAO [ECONOMIC REPORTER] in Chinese No 40, 12 Oct 92 pp 16-17*

[Article by Xiao Hang (2556 5300): "Encore to the 14th CPC National Congress: Socialist Market Economy Adopted as Party Guiding Principle"]

[Excerpt] [passage omitted] The people on the mainland generally hope that the CPC, having been in power 43 years and now flying the reform and opening banner, will use the congress, which links the past to the future, and the guidelines of Deng Xiaoping's theory of building socialism with special Chinese characteristics to quicken the pace of reform, opening to the outside world, and economic development, so that the Chinese people will develop rapidly to the point where China truly becomes a dragon of the East in the world.

### **Strongly Hold Back the Tide**

In terms of the situation around the world, however, CPC members are facing serious challenges. With the disintegration of "Big Brother" Soviet Union and the breaking up of socialist countries of Eastern Europe due to ethnic divisiveness and armed conflicts, there is a decidedly heavy pressure on China, the largest citadel of socialism.

Confronted by all kinds of pressures from the West, Deng Xiaoping courageously led the 1.1 billion Chinese people into battle with their backs against the wall, fighting against political pressures and economic sanctions from the West. While continuing to carry out China's reform and opening up, he sought at the same time to improve China's foreign relations, so that by the second half of 1990, China was finally able to extricate herself from a passive and isolated position. Deng Xiaoping made it clear that the party's basic line will unswervingly be followed for 100 years, demonstrating the resolute spirit and determination of CPC members. This then is the historic backdrop of the 14th National CPC Congress, which reflects not only a feeling of urgency among CPC members, but also their strong sense of mission to continue to build socialism in China.

Therefore, as CPC Central Committee Politburo Standing Committee member Qiao Shi put it, the 14th National CPC Congress is a meeting with an important

historic mission, bridging our inheritance to the future. Premier Li Peng also called the congress an important event in China's political life, and said that the 14th congress will certainly further promote China's reform and opening up, help enterprises grow and prosper, and become an important milestone in the history of the CPC and the modernization of Chinese socialism.

### **People's Hearts and Minds Are Stable**

Having learned the lessons of the Soviet Union and Eastern European countries, hardships created by the interminable "mass movements" and endless "struggles" in China's past, what the Chinese people fear most today is instability. They ask only for peace in the world, and stability in society so that they can speed up development, and bring prosperity to all. Having seen with their own eyes the dramatic dissolution of the Soviet Union and the warfare resulting from the break-up of Eastern European countries, the people are asking what good have western countries done? What has capitalism given them? To activist Chinese, the questions are sobering; university students full of drive and idealism also pause and reflect. All of them realize that China cannot afford to go through more turmoil, and the people are no longer willing to endure all hardships as a result.

A Beijing University English student said, whether it is socialism or capitalism, the important point is that it must develop the economy and strengthen the country. The CPC running the government should represent the interests of all Chinese people, take steps to speed up reform and opening up, and to realize economic revitalization. This would benefit not only the whole country, but me as well. Henceforth, I can apply what I learn to my work, and may even pursue further training and study abroad.

This university student spoke plainly, with frankness and without any exaggeration. His words reflect the objective and down-to-earth attitude of a majority of Chinese people, and in fact also conform with Deng Xiaoping's "Theory on Cats," namely "it matters not whether a cat is white or black, the cat that catches mice is a good cat." In short, the desire for social stability represents the demand of 1.1 billion Chinese people. It provides the backdrop in China today and it is an indispensable condition for any major advances in the Chinese economy.

### **Accelerate the Growth Rate**

Because the Chinese people are increasingly realistic in their political demands, but strongly motivated to strive toward economic development, one can see production and construction activities being carried out feverishly everywhere from rural areas to the cities. All provincial governors, mayors and county head talk about "stepping up the pace," and "catching up with Asia's four little dragons." What is astonishing is to see the enterprises and joint venture projects that are being formed in areas

along the coast and national borders, and to hear the following refrain passed by word of mouth that "a 10,000 yuan household is poor indeed; a household with 100,000 yuan barely gets out of poverty, but with 1 million yuan, it can begin to take off; and a household with 10 million yuan can be considered rich."

Under such a large environment, the Chinese people are truly encouraged and energized by the big push toward economic growth that came from Deng Xiaoping's remarks during his southern tour. The people hope that the CPC will continue to carry out this economic policy without change, and that the government at all levels will quickly change their functions, and increase their efficiency to better serve economic development needs.

To accede to the people's wishes, the 14th National CPC Congress will likely revise the 6 percent growth rate projected in the Eighth Five-Year Plan. Reliable sources indicate that in the next five years, China's annual growth rate will be set at 8 to 9 percent.

An official in charge of economic and trade matters in the State Council said that Deng Xiaoping called for speeding up economic growth, the faster the better based on realistic conditions to get the Chinese economy on to a new stage in a few years. This demand means that we must change our thinking, and concretely push forward to set and meet the growth rate at the high standard of the 90's. This official spoke with feelings: "We are a developing country, and we will fall behind unless we keep up a high rate of growth; only by doing so can we gain any benefits; and only by speeding up can we quicken the pace of enterprise development."

Today, Japan's GNP per capita has reached \$24,000 and with a 1 percent annual growth rate, it amounts to an increase of \$240. Even if China grows at a 10 percent annual rate, it would yield only \$40, only a fraction of Japan's. Using as standard the per capita GNP of \$8,800 in the Taiwan area, the Chinese mainland has to grow at a 20 percent rate before we can keep pace with their 1 percent growth rate. Some people estimate that with a 5 to 6 percent rate of growth, China will forever be the poorest backward nation in Asia.

It is only when one sees the discrepancy between China under socialism and other advanced capitalist countries, when one sees the reason for the collapse of the Soviet Union and of communist rule in Eastern Europe, that one realizes why the CPC has developed a sense of crisis. The CPC authorities, however, also have a strong sense of mission because it wants to preserve the nation under the CPC and to continue to build socialism. Deng Xiaoping's remarks on his southern tour calling for accelerated reform, opening and development have the goal of preserving our land under the red banner of communism and thus demonstrating the superior characteristics of socialism.

#### Encore to the Market Economy

Among the important agenda items of the 14th National CPC Congress, the market economy issue ranks ahead of all others. On the question of market economy versus planned economy, Deng Xiaoping's "Theory on Cats" is again applicable. Now that we finally have a cat that catches mice, let us not talk about whether it is surnamed "capitalism" or "socialism," but go ahead and practice "market economy." According to authoritative sources, this CPC Congress will formally establish the socialist market economy as a goal for reform, and this is a milestone on the historic route of building socialism with Chinese characteristics. Whether a planned economic system or a market economic system should be used to develop a socialist economy is a question that has been debated for close to 100 years, and it is a question full of theoretical meanings and practical considerations. If we take a look, and decide to rely on the market economic system instead of the planned economic approach, then it will lead to important changes in all aspects of our work.

Why is it that economists devote a high degree of interest and passion to such a question? According to the State Council's Development Research Center researcher and noted economist Wu Jinglian [0702 2417 8834], it is not a matter of prejudice in favor of a "market" versus a "planned" approach, but a question of selecting an appropriate economic system that will be most effective in dealing with the socialist economy of China. The economic efficiency of the system selected will determine whether China will prosper or decline and whether the socialist system will perish or survive.

Today, market economy is also the focus of discussion among the political, intellectual, economic and business circles. The major newspapers in Beijing have all started columns on this subject, and invited noted economic specialists, university professors and business managers to submit articles discussing how China, under socialism, can best establish a market economic system. From the middle of September to the eve of the 14th Congress, the CPC Organization, Propaganda and other departments also organized major symposia, at which economic specialists such as Liu Guoguang [0491 0948 0342], Fang Sheng [2455 3932], Wu Jinglian, Li Yining [0632 0110 1337] introduced the market economy concept to several thousand county and bureau level and above officials, helping them "exercise their minds," liberate their thinking, and pave the way for the socialist market economy concept.

#### The Key Is the People

Since the 14th National CPC Congress is an important watershed congress, naturally there will be important personnel changes. It is reported that many people have sent letters to the secretariats of the CPC Central Committee and the State Council, expressing their views that

the CPC should promote into the leadership ranks middle-age and younger cadres, mature enough but energetic, possessing talent as well as character, who understand economics and have experience in reform and opening up tasks. They expressed the hope that the 14th Congress will produce a new Central Committee that sets a standard for selecting only first-class talent.

In his southern tour, Deng Xiaoping stated very clearly: "The correct political line must depend on, and be guaranteed by a correct organizational line. Whether socialism and reform and opening go together, whether the economy can develop quickly, and whether the nation can long and peacefully be governed, from the a definite standpoint, the key is the people." Therefore, Deng Xiaoping put a great deal of emphasis on the question of the successor generation. People are hoping that the congress will consider this question from the overall enterprise of the Chinese people, and that the 14th National CPC Congress will select new Chinese leadership cadre who will push forward China's reform, opening and economic development.

**Enterprise Reform Requires Policy Breakthroughs**  
*93CE0090A Beijing JINGJI GUANLI [ECONOMIC MANAGEMENT] in Chinese No 8, 5 Aug 92*  
*pp 12-14, 34*

[Article by Li Zhongfan (2621 1813 0416): "Continuing Enterprise Reform Urgently Requires Policies and Measures of a Breakthrough Nature"]

[Text] The speed of China's economic development during the 1990's still depends on continuing enterprise reform, so as to provide the enterprises with an operational mechanism that is consonant with the development of the socialist commodity economy and that possesses vitality. This issue must now be perceived as of pressing urgency; it urgently requires the adoption of policies and measures of a breakthrough nature.

**1. Deep Awareness of the Seriousness of the Problems Presently Existing in State-Owned Enterprises**

The following are the serious problems that presently exist in state-owned enterprises: Starting in 1989, returns from industrial enterprises in the state budget have very much declined during the last three years running. Comparing 1991 with 1988, profits have declined 67.8 percent; profits retained by enterprises have declined 43.1 percent; the profit rate on capital declined 2.2 percent, and the overall range of the decline was 78.4 percent; the amount of losses by enterprises rose 3.92 times and reached the high amount of 31.04 billion yuan; the range of unprofitability increased from 12 to 29.7 percent of all enterprises, an increase of 147.5 percent, almost one and a half times. The actual conditions are much more serious than shown in the above statistical figures, mainly because many enterprises have hidden losses, estimated by experts as existing in one-third of all state-owned enterprises. The scale would be two-thirds if all cases of open and hidden losses would be added

together. If this situation is not turned around and allowed to continue, the following serious consequences may result:

First, because of the decline of returns from state-owned enterprises and their serious atrophy, their position in the national economy will be distinctly weakened; whatever productive capacity they may have acquired will be under pressure, will be harmed, and will in the end undermine the vitality of the national economy.

Second, many existing deep-rooted problems in the national economy, such as the financial deficit, the credit inflation, inflationary pressures, the "triangular debts," the irrational economic structure, etc., will not only become impossible to remedy, but some of them will even further deteriorate.

Third, the large successive three year decline in returns from enterprises has an adverse effect not only on the present economic operations and development, but also distinctly, and for quite some time, on the future economic development and production, and will result in considerable difficulties for the realization of the objectives in our second-stage strategy and even for the objectives of the third-stage strategy.

This shows that making known in depth the seriousness of the problems presently existing in the state-owned enterprises and the resolute adoption of effective measures to turn around the situation of seriously declining returns from enterprises, has become an unshirkable major task.

**2. Continuing Enterprise Reform Urgently Requires a Policy Breakthrough**

In light of the above-stated circumstances, achieving a turnaround in the situation of seriously declining returns from state-owned enterprises urgently requires adoption of decisive measures in continuing reform and a policy breakthrough, so that distinct progress may be accomplished in these respects as rapidly as possible.

We must therefore first of all understand that a vitality-rich mechanism for the business operations of enterprises has already been gradually built up in the course of the development of the socialist commodity economy. Disregarding the practice of the last 10 years of reform and without ground or basis fabricating a business mechanism for enterprises would not conform to Marxist epistemology. It is rather necessary to deeply review the actual experiences of the enterprise reform of the last 10 years, especially the very successful experience of the shift in business mechanisms among the first lot of enterprises belonging to the Capital Iron and Steel Corporation, and to deduce from this review something in the nature of law. Based on the actual conditions and building on the existing foundation, we would then have to adopt major goal-oriented policies, continuing enterprise reform, and accelerating the turnaround in the business mechanism of the enterprises.

Second, we must gain an accurate understanding of the relation between ownership and managerial right. The managerial right has to serve the ownership right, and any expansion of the managerial right would have the purpose of increasing the vitality of the enterprise, and as a consequence to increase economic returns, which basically, is also of benefit for the owner. Expansion of the managerial right not only does not weaken the ownership right, but rather increases the owner's assets and income, and as a consequence, increases the capacity of the ownership right; the relations of the two rights conform and are not antagonistic. The general direction in continuing enterprise reform during the 1990's is therefore toward strengthening and expanding the managerial rights of enterprises. This will not only provide the enterprises with the right to maintain simple reproduction, but the managerial right to expand reproduction.

On the foundation of a shift in concepts and of rectified understanding, it is necessary to achieve a breakthrough in the following issues:

1) Expanding the decision-making power of enterprises in matters of investment. The role of main investor should as rapidly as possible pass from the government to the enterprises, and the right of enterprises to invest in fixed assets should be expanded as much as possible. Apart from generally expanding the amounts enterprises may invest, and while strictly observing the principle of full responsibility for own profits and losses, also on the condition of abiding by the state's industrial policy, all fixed-asset investment projects of an enterprise, financed mainly by its own funds and with funds raised by the enterprise, are not limited as to the amount of the investment, also are not restricted as to the scope of business operations, as long as the enterprise will itself achieve an equilibrium of energy resources, transportation, and raw materials. In all these matters, the enterprise shall have complete freedom of decision. Furthermore, the policy to apply to all state-owned enterprises shall be that enterprises should concentrate on one main line of trade, and that business operations shall be diversified.

2) Strengthening the capability of enterprises for self-accumulation of capital. In matters of capital sources for reproduction, the enterprises should primarily practice self-accumulation of funds. This would demand appropriately adjusting the tax burden, lightening the tax burden on enterprises, and having the enterprises work hard to gain an expanding ability for self-accumulation of funds for their reproduction, i.e. to gradually accumulate a sufficient amount of their own funds. At present enterprises are faced with the difficulty that profits that they are allowed to retain are not even 10 percent of their sales profits. Even though the government's financial situation is also extremely difficult, we have to start out from the consideration of developing productive forces and from the need to find a fundamental solution for the financial difficulties. Under these circumstances, it is necessary to form a most determined resolution to institute a preferential policy in favor of the state-owned

enterprises. Even if reluctantly, we must temporarily (for two or three years) reduce their product tax, devise methods of tax reductions and exemptions, reducing tax by 1 or 2 percentage points, taking different local conditions into account. Besides this, enterprises should be permitted to retain most of their profits, so that the state-owned enterprises may as soon as possible become "emancipated." At the same time, private financial resources should as far as possible be made use of, the national debt should be expanded (with annual rollover). Even if the state's financial deficit (including obligations) should reach up to 5 percent of the GNP, it would present no danger, if these measures could raise returns from the enterprises and induce a benign circle of production, distribution, circulation, and consumption in the national economy. Of course, it would also be necessary to reduce as far as possible all financial subsidies, to temporarily alleviate pressure on state finance. Being well aware of the financial difficulties of both the enterprises as well as the government, we should still resolutely decide on giving priority to the solution of the difficulties of the enterprises. We should work hard in two or three years to turn around the situation of low economic returns from the enterprises, a result of which would then also be a fundamental improvement in the state's financial situation.

3) Expanding the financing rights of enterprises. Permitting enterprises, who are in the necessary favorable condition, to issue debentures of various kinds, allowing direct inter-enterprise lending and borrowing, allowing large-scale enterprises, who are in the necessary favorable condition, to establish finance companies or internal banks. The purpose of all this is to create an overall environment in which enterprises can use the funds held by the general public, activate all the funds held by the general public, accelerate turnover, and raise returns from capital funds.

4) Expanding the right of enterprises to price their own products and the right to market their own products. A further expansion of the right of enterprises to set prices and market their own products is one of the important preconditions to induce enterprises to move toward the market system. Enterprises must have the right of setting prices for their products and services. Excepting only an extremely small group of products for which prices must be controlled by the state, all prices must be decontrolled, and the enterprises must be completely free to set prices according to costs, an average profit margin, and according to the law of supply and demand. At the same time, according to the principle of less mandatory planning and more guidance planning, the extent to which raw materials, energy, and transportation enterprises may do their own marketing within the plan must be expanded, i.e., the market-oriented proportion must be expanded. Even in the case of products to which mandatory planning applies the principle shall be to gradually only prescribe their quantity and not their prices; let producers and consumers negotiate prices directly and conclude contracts for the direct supply of the goods.

5) Expanding the right of enterprises to engage in foreign trade and to use foreign capital. Referring to the business mechanism of foreign enterprises, we shall be expanding the right of enterprises to engage in foreign trade and to use foreign capital and the right to engage in transnational business operations. We shall simplify procedures for travelling abroad and shall create favorable conditions that will allow our enterprises to participation in the competition of the international market and we shall expand the extent of our opening to the outside world.

6) Establishing a system that restricts appointments and dismissals of plant directors (managers). The reform and development of enterprises demands a stable internal situation. Frequent changes of plant directors (managers) is detrimental to enterprise stability. The appointment and dismissal of plant directors (managers) must therefore be determined jointly by the supervisory agency, namely the commission on enterprises, or the staff and workers assembly and the plant director (manager). If the three fail to agree, the case should be submitted to higher authority for decision. However, if the plant director (manager) had been able to achieve during his term of office an improvement in the economic returns of his enterprise, had fulfilled all prescribed tasks, he shall have the right to refuse a transfer and be protected. Furthermore, there shall be no age limit for serving as plant director (manager).

The most fundamental matter in all this is that the change of government functions must be accelerated. The business mechanism of enterprises has come about in a mutual interaction between enterprises and their external environment. Different external environments and different internal objectives of enterprises result in different enterprise mechanisms. Changing enterprise mechanisms and changing government functions are two sides of the same question. By only pressing for a change of mechanism within enterprises without also pressing for a change of government functions, we will make it impossible to bring about enterprise business mechanisms that are consonant with the development of the socialist commodity economy and that have abundant vitality. The structural reform of the Chinese economy is a self-improvement of the socialist system, the change in government functions, therefore, plays an even more important, even decisive role in changing the business mechanism of the enterprises. The change of government functions can be achieved in three areas, namely in:

1) Streamlining the administrative structure, fundamentally changing the present practice of establishing administrative agencies according to various types of products and various lines of trade; 2) weakening administrative functions, i.e., to directly transfer to the enterprises the functions of production planning and distribution of money and commodities, while strengthening the administration's macroeconomic regulation and control, as well as its supervisory, advisory, and service functions; and 3) transforming some of the administrative functions and organizations into functions and organizations of the society.

### 3. Scientific Selection of Breakthrough Points for the Shift in the Business Mechanism of Enterprises

We must act in the spirit of the directives given by Comrade Deng Xiaoping, namely accelerate the reform of the economic system, accelerate economic development, and with an accurate perception of work methods, courageously engage in trials and pioneering advances. In an integration with the realities of the present enterprise reform, we must most firmly resolve to launch a transformation of the business mechanism of enterprises by making three types of pilot projects the breakthrough points for this undertaking. It will then be absolutely possible to achieve within about two years a progress of a breakthrough nature and to advance the enterprise reform to a new height.

1) Pilot project of transnational business operations of enterprises. An important special characteristic of China's reform and development in the 1990's is the effort to distinctly improve the position of China's enterprises within the competition of the international market, and to share as far as possible a proportion of the global market. It has therefore become extremely important to select, as a pilot project, a group of enterprises to engage in transnational business operation. We must first of all carefully select this year a certain number of enterprises (10-20 firms) that are to act as pioneers, operating with a business mechanism that should be completely as that of large international companies (such as the IBM corporation of the United States). This group of enterprises must excel in business operations and management, show high economic returns, economic strength, have good developmental prospects, and be able through energetic efforts to join the ranks of the 500 large enterprises of the world. We would demand of this group of enterprises that they act as advance formation for the main contingent of China's enterprises in their future penetration of the international market, that they will stimulate a large number of enterprises to enter the global market, and that they will thus contribute to a broader opening up and speedier progress of the Chinese economy.

2) The pilot project of general contractual undertakings concerning all enterprise input-output. The most important question in the present transformation of the business mechanism of our enterprises is: getting enterprises to acquire a kind of dynamism (impetus), ensuring continued efforts at raising economic returns and increasing profits. As soon as the enterprises will have acquired this dynamism they will be able, on their own initiative, to straighten out their various internal and external relations, to bring all their functions into play, to consciously move toward the market, and to generate high economic returns. Practice of the reform during the 1980's has proven: General contractual undertakings

concerning all input-output has engendered a strong dynamism (impetus) in enterprises, and as a consequence, a business mechanism full of vitality; it has also aroused greatest enthusiasm and creativity, brought about a very abundant production, also more revenue for the state, and more profits retainable by the enterprises. It has truly brought about autonomy in business operations, responsibility for own profits and losses, self-accumulation of capital, self-development, and self-restraints. The 12-year long practice of the Capital Iron and Steel Corporation and of other similar enterprises has already fully illustrated this point. We should therefore decide to select a substantial group of large-scale enterprises (50 to 100 firms) to serve as pioneer projects for the contractual undertaking concerning all input-output, such contracts to last until the year 2000. It appears to us that this is the main road toward increasing economic returns, a road that is consonant with the national conditions of China. It is important that an attempt be made to have a common understanding among all parties concerned. The focal point in the present economic problem is raising economic returns, and the primary task in this matter is to raise the economic returns in the state-owned large-scale enterprises. Whatever reform method will achieve highest economic returns, that is the method we will follow. Once economic returns from enterprises have been raised, once the economy has developed, state revenue will increase accordingly, and we shall have a steady foundation for increasing revenue.

3) Expanding a reform project that will ensure taxes for the state and profits to enliven enterprises. Following the development of China's commodity economy, profit distribution as between the enterprises and the state was generally done by the three turnover taxes. State revenue is now to somewhat over 70 percent derived from tax income. This shows that the state will have to rely on the development of enterprises for increased revenue. The more enterprises can increase their sales, the more revenue will there be for the state; this is the "main thing" in the matter of state revenue. To try at this time when the enterprises are in difficulty to enlarge the "main thing" while unwilling to release the "minor thing" will have the enterprises wither away for lack of economic strength, and as a result, will also make it impossible to increase the "main thing." To safeguard the "main thing" of state revenue, it is therefore necessary to leave the larger part of the profits to the enterprises, to increase their economic strength, to make them produce more, turn over more tax, and have them keep more of the profits. Along this line Jining City in Shandong Province has instituted various forms of the contract management responsibility system. Its experiences and results were excellent, as it ensured a year by year growth of state revenues, and also a year by year increase in profits retained by enterprises, which much enhanced enterprise vitality. Other places that did the same have had similar results. They ascribed this kind of enterprise reform to the idea of "ensuring taxes for the state and profits to enliven the enterprises." It shows this

method is evidently very appropriate for the numerous state-owned medium- and small-sized enterprises. We must give them a free hand and allow the various localities to increase such pilot projects, according to the said principle, adopting different forms according to the actual conditions of the localities concerned.

The three above-described types of pioneering projects in enterprise reform would meet the demand for transformation of the business mechanism, and they reflect at the same time the principle of classified guidance. They are of pioneering content, while they have also taken feasibility into account. Adopting a method of their step by step implementation will undoubtedly have a positive and dynamic effect on efforts to accelerate enterprise reform.

## PROVINCIAL

### Sichuan Gains From Property Rights Transfers

HK2011134092 Beijing LIAOWANG in Chinese No 40,  
5 Oct 92 pp 22-23

[Article by Chu Xuejun (0328 1331 6511): "Sichuan: Let Hopeless Enterprises Die 'Peaceful Deaths'"]

[Text] Editor's Note: It is anticipated that after implementing the "Regulations on Transformation of Operational Mechanism in Industrial Enterprises Under Public Ownership," the transfer of enterprise property rights will inevitably emerge, increase with each passing day, and become a normal thing in China's economic life. Sichuan's ideas and practice of letting hopeless enterprises "die peaceful deaths" conform with China's national conditions and the law governing economic operation. They are also conducive to enhancing the use of state assets and are worth taking for reference. [end editor's note]

Over the past few years, Sichuan Province has vigorously pushed forward the reform on transfer of enterprise property rights and effectively caused the province's economy to shift onto the right track of a benign cycle. Up to the first half of this year, enterprises throughout the province which had effected transfer of property rights totalled 2,400, the greatest number in the country. The total amount of transferred assets in stock exceeded 3 billion yuan and the idle capital returned to efficient use amounted to 2.2 billion yuan.

People in economic circles pointed out that the transfer of property rights in Sichuan, with the annexation and merger of enterprises as the main contents, could be called a "multifunctional key."

### "Multifunctional Key" Capable of Solving Knotty Problems

Talking about the transfer of property rights in enterprises, people will first think of the proposition of absorbing the failing enterprises. It should be said that

the transfer of property rights is highly efficacious in "curing" enterprises in terms of making up deficits and increasing surpluses.

More than 1,000 loss-making enterprises in Sichuan have been "brought back to life" through transfer of property rights and the economic recovery has emerged. In fact, absorbing loss-making enterprises is only a comparatively low-level function of property rights transfer. Viewed from a deep-going angle, it is an even more effective way of developing enterprise groups and optimizing the industrial structure and product mix.

In Zigong City, the practice in this field is of a very unique character. In recent years, with the key enterprises as the dragon head, the city adopted the approach of "rolling snow balls," by which it: Broke through the bounds of regions, departments, and ownerships; worked hard to develop the actual strength of enterprise groups; greatly raised enterprise's specialized production level; and began to form an industrial superiority, through such forms as transfer, annexation, financing, leasing, and so on. At present, a number of enterprise groups, including Shengda Business Corporation Group, Jiuda Salt Industry Corporation Group, Dongfang Boiler Corporation Group, Shuanfeng Electronic Corporation, and so on, have been founded in the city. They have made a great impact on, and exercised a promotional role in, adjusting the economic structure throughout the entire city.

In addition, the transfer of enterprise property rights also has exceptionally high effectiveness in mobilizing and releasing the potential energy of idle capital. According to rough statistics by the departments concerned, in the existing 60-odd billion yuan of assets held in Sichuan, about one-third of it is in a state of low efficient use, and more than 3 billion yuan is basically idle. If such enormous wealth can be tapped and used in the best possible way, it is tantamount to giving vigorous wings to the national economy.

Sichuan Construction Project and Machinery Plant was one of the state's key enterprises in machinery industry with powerful technical strength. Affected by the state's decision to reduce capital construction in 1989, its products were overstocked and a lot of personnel and assets were left idle. In April 1990, the plant was merged with Deyang Mining Machinery Plant, which produced marketable products but had weak productive capability, and was renamed the Dongfang Petrochemical General Equipment Plant. After that, the superiority of technology, qualified personnel, equipment, and location was rapidly released. As a result, in just a little over six months, and with an input of only 2.5 million yuan, a new production scale took shape which, according to the original plan, would take three years and an injection of 20 million yuan.

**People in economic circles began to realize that the transfer of property rights is by no means an expedient measure but will very probably become a mechanism**

which conforms to China's national conditions and reflects the principle that, in competition, the superior wins and the inferior is eliminated.

#### Subsistence Mechanism for New Enterprises

In Western countries, bankruptcy is mainly taken as an impelling means for enterprises' subsistence and development mechanisms. In China, however, the conditions now are not ripe for copying this model indiscriminately. Wang Dishu, deputy director of the Sichuan Provincial Commission for Restructuring the Economy, made an analysis saying: On the one hand, most enterprises in China now have relatively limited funds at their disposal and depend entirely on bank loans for operation and fund circulation. Banks are enterprises' chief creditors, so if enterprises go bust, the ultimate sufferers will be banks and the state. On the other hand, the social insurance system has not been perfected in China yet so, if enterprises go bust, the placement of staff and workers is a tough problem which is liable to breed destabilizing factors in society. Therefore, the road of enterprise bankruptcy is blocked at present.

The transfer of enterprise property rights is different. It is not just to allow enterprises to "die" and care no more about them. Instead, through the proper flow of production elements and better effectiveness of state assets, it facilitates the failing enterprises in either "dying a peaceful death" or resurrecting themselves after their "death."

Li Yongshou, secretary of Deyang City Party Committee, passed on his experience saying: At present, the transfer of enterprise property rights is more conducive to considering the interests of the state, enterprises, and staff and workers than enterprise bankruptcy, and is more in keeping with China's national conditions. Before the continuously loss-making Deyang City Cannery was annexed by Deyang City Brewery which looked favorably on market prospects, the city authorities considered letting the former go bankrupt. This resulted in its staff and workers going to the city party committee and government offices every day appealing for help and requesting the "father and mother officials" to offer them meals. It became a constant headache for the city leadership. In this circumstance, the city authorities had no alternative but to transfer the property rights and achieved a result with which everybody is satisfied. By so doing, the city discharged a heavy "burden," the enterprise was brought back to life, and the staff and workers satisfactorily obtained a final settling place.

In handling the concrete work, to ensure a smooth advance of the transfer of property rights in enterprises, Sichuan paid attention to the specific circumstances in different factories and adopted the following various forms of transfer:

**Accomplishing the task in one move.** This method is adopted by most enterprises in transferring property rights. The essence lies in shifting the total production elements of the inferior enterprise to the superior one in

a single move to foster the superior, restrict the inferior, and readjust the structure. It has the advantage of facilitating the enterprise making overall considerations for such issues as long-term development, internal management, technical training, and so on. However, it has the disadvantage of bearing heavy burdens, taking greater risks, and causing the superior enterprises to shoulder unbearable burdens so that they fall behind instead of move forward. That is why we must be prudent in our actual handling.

**Proceeding in a gradual and orderly way.** This means doing contract work first and annexation afterward. Sichuan Travel Bus Manufactory was a key enterprise selected by the state for producing travel buses. It had broad development prospects with demand exceeding supply, but restricted by production conditions such as site, equipment, funds, and others, it lacked reserve strength for further growth. However, Chengdu No. 2 Bus Manufactory had spacious factory buildings, advanced equipment, and skilled workers, yet the enterprise had sustained heavy losses and was deep in debt due to its lack of capability in meeting emergencies in the markets and inappropriate internal management. Obviously, the annexation of the two enterprises would benefit both. However, in actual practice, because Sichuan Travel Bus Manufactory considered that the external conditions, including the tolerance of staff and workers, the channel of paying profits and taxes, and the relationship between capital and loan, had not been totally straightened out, it decided to take two steps—contract first and annexation later. With a transformation process of quantitative to qualitative change in the internal structural adjustment of the annexing parties, the adverse impact of various conflicts brought by the annexation is alleviated.

**Breaking the whole into parts.** This means an enterprise is annexed by several units. Chengdu Qianjing Furniture Factory was once an advanced enterprise but was forced to close down in 1989 because its products were unsalable. The factory repeatedly expressed its wish to be annexed, but after mediation by the Chengdu Property Rights Transferring Market, the city authorities decided to let Chengdu Real Estate Development Company take over use rights for part of its land; let Chengdu Handicraft Association absorb more than 200 of its staff and workers; and allowed the remaining site, equipment, and employees to be formally annexed by Chengdu Electric Appliances Factory. This way, the problem of Qianjing Furniture Factory came to a satisfactory solution.

**One of the crucial factors in which Sichuan's reform of the transfer of enterprise's property rights has made the greatest breakthrough is the support for reform received from various quarters.**

#### Support for Reform From Various Units

At present, leading groups for transferring property rights have been set up in Sichuan at the provincial level and in most prefectures and cities. These are led by the

government and formed by financial, tax, industrial, commercial, banking, and other economic functional departments as well as relevant departments and bureaus. They are responsible for the overall planning, coordination, supervision, and management of the work. Many grass-roots workers pointed out that although enterprises must abide by the principle of equality, mutual benefit, and voluntary combination in transferring property rights, it will not work to give enterprises a free hand to annex and transfer by themselves at the present stage. Because the work of transferring property rights has a strong policy character and involves a wide range of interest adjustment, enterprises themselves are incapable of coordinating the various complicated relations; on the other hand, it is very difficult for enterprises to guarantee that their voluntary transfers will be in keeping with the state's industrial development direction. Hence, it is extremely necessary for governments at all levels to intensify their macroguidance and participate in organizing and carrying out the work. Naturally, it is a major function of the government departments to use policy as guidance to urge enterprises to voluntarily embark on the road of transferring property rights. In recent years, the Chengdu Branch of the Industrial and Commercial Bank of China intensified its loan policy of "fostering the superior and restricting the inferior," by which it strictly controlled new loans and resolutely recalled old loans from failing enterprises which had poor economic results and lacked business prospects, in an attempt to force them to seek an outlet through annexation. In the meantime, it energetically supported the promising enterprises which had difficulty in transfer due to inadequate funds or had impeded circulation after purchasing property rights, in a bid to impel them to activate their operations.

Some local government departments in Sichuan even acted, of their own accord, as "go-betweens" and directly helped enterprises with their transfer. The state-owned Changqing Machine Plant was a large military industrial enterprise in the machinery and electric appliances line with very sound technical expertise and the refrigerators it produced were of fine quality. Because the plant was situated in the mountainous area of southern Sichuan, its development was restricted through lack of transport facilities and information accessibility and it badly needed to move closer to a city through transregional annexation. After the news got around, the city governments of Zigong and Yibin contended fiercely for the plant and Zigong finally won victory by offering more favorable terms.

**Equal stress is laid on the present and the future; the only way leading to the healthy and sustained development of transferring enterprise property rights is cultivation of the markets.**

#### Expediting Cultivation of Property Rights Trading Markets

A recent striking characteristic of the reform on transferring property rights in Sichuan was the strengthened

regulating role of markets for transferring property rights. In its policy on penetratingly pushing forward the province's work regarding the transfer of enterprise's property rights introduced recently, the provincial government particularly stressed the importance of perfecting markets for transferring property rights and proposed that the existing markets for transferring property rights throughout the province should further sum up experience, amplify the system, and improve functions so that they would be turned into a regular, standardized, open, and multifunctional marketplace for property rights trading.

At present, Sichuan's markets for transferring property rights have begun to take shape. A dozen property rights trading markets at city and county levels have been set up in turn in various areas of the province over the past few years and the leading market for transferring property rights at provincial level was built, and began to operate, in Chengdu a short time ago.

According to analysis by an authoritative source, the growth of property rights trading markets will have many advantages in giving impetus to the transfer of enterprise property rights. 1) They will enable the transfer of enterprise property rights to have more extensive competitiveness and selectivity so that enterprises will find satisfactory objects of annexation more easily and at even more sensible prices. 2) They will create conditions for intangible assets such as trademarks, patents, and technical know-how, to enter the circulation field to enrich the connotation of the transfer of enterprise's property rights. 3) They are beneficial to the transformation of government functions, and even to fundamentally eliminating inappropriate intervention by government, so that the transfer of enterprise's property rights will become a pure economic action as quickly as possible.

Although the time for practice has been short, Sichuan's markets for transferring property rights have increasingly displayed their important role in the fields of collecting and releasing information concerning enterprise annexation, organizing, examining, and approving transfer procedures; helping going through relevant formalities; providing various consulting services; and so forth. Chengdu Property Rights Transferring Market is the country's first of its kind. Since its inception in 1988 up to now, it has handled more than 400 cases of property rights transactions, accounting for approximately one-fifth of the province's total. This has put more than 600 million yuan of idle money back into efficient use and has properly arranged employment for nearly 40,000 staff and workers.

#### **Bai Qingcai Comments on Northwest Trade Fair**

93CE0093A Xian SHAANXI RIBAO in Chinese  
20 Sep 92 p 1

[Article by correspondent Yue Anmin (1471 1344 3046); "Trade Fair Results Much Better Than Expected—

Provincial Governor Bai Qingcai Replies to Taiwan CHUNG-SHIH WAN-PAO Correspondent"]

[Text] "The trade fair results were much better than expected!" This was Provincial Governor Bai Qingcai's basic evaluation of the present trade fair made in reply to Taiwan CHUNG-SHIH WAN-PAO correspondent, Mr. Ho Shan-hsi's [0149 0810 3305] question.

#### **(1) Trade Fair Promoted the Emancipation of Thinking and the Updating of Ideas**

When Mr. Ho Shan-hsi asked how he evaluated the present discussion, provincial Bai Qingcai replied: In evaluating the present discussion, you cannot just look at the economic results; you have to look at how they emancipate thinking and update ideas as well. Take Shaanxi, for example. Since it is an inland province where information is not readily available, thinking has been conservative for a long time. People often said that Shaanxi people "neither give nor take, neither ask for nor get, and neither quarrel nor make a fuss." Consequently, economic development lags. With the advent of reform and opening to the outside world, the thinking of the Shaanxi people has become gradually emancipated and their ideas have gradually become newer. The present trade fair has a much different cast than heretofore. At past trade fairs, mostly government foreign trade units met with businessmen. This time industrial and mining enterprises as well as other industrial departments are the main players in the fair. In the past, mostly provincial departments concerned took part, but this time not only have provincial, prefecture, and municipal leaders, as well as the departments concerned taken part, but county magistrates, and even leaders and people in charge of business concerns in some townships and towns have also come. If they did not have an admission ticket, they talked outside. Formerly foreign businessmen came to us, but now our personnel "take the initiative in going on the offensive." They pay calls on the foreign businessmen, hand out materials, and introduce themselves. Some are even a little "pesky." More deals are struck outside the fair than inside. All this shows that the ideas of Shaanxi people have been updated very much and their thinking is very much emancipated. The situation is substantially the same in the fraternal provinces of the northwest.

#### **(2) Transactions Concluded Also Much Better Than Expected**

Provincial Governor Bai continued by saying that a total of 455 contracts have been signed at the fair, investment totals \$1.23 billion, and agreed-upon foreign capital totals \$601 million. Transactions concluded are better than expected. Most of these deals are for the technological transformation of basic industries and the development of tertiary industries. In Shaanxi, for example, formerly most of the large- and medium-size enterprises were built during the First Five-Year Plan, or are "third string" enterprises whose technology is backward and equipment out of date. At the trade fair, agreement was

reached with foreign traders for the transformation and updating of quite a few of these enterprises. The range of topics discussed at the fair was not limited solely to any single aspect, but the area of cooperation was widened.

**(3) Made Quite a Few Friends, Opened New Channels**

Governor Bai continued by saying that more than 1,000 foreign businessmen and more than 10,000 Chinese attended the fair. As a result, we made quite a few friends, and opened new international contact channels. Some international organizations had never invested in Shaanxi, and lacked information about the northwest. For example, in the past, the Asia Bank invested approximately \$800 million in China each year, most of it in coastal areas. Now that they have come here and learned about Shaanxi, they said that they would make a big investment in Shaanxi and the northwest. So, you might say that this fair was both wide-ranging and international in character, and it established new channels for contact. It helped foreign businessmen understand Shaanxi and understand northwest China.

**(4) Seasoned the Ranks and Provided Experience**

Governor Bai Qingcai also said that before the trade fair opened, when trial flights between Xian and Nagoya Japan were made, we considered having the magistrates of all counties fly to Nagoya to look around to enable them to widen their horizons. This fair provided a fine opportunity for widening contacts with customers from abroad and for seasoning the cadre ranks. This fair was also a test of guesthouses accommodating foreigners. The overall impression that Xian left with both foreign guests and guests from fraternal provinces was good. Facilities were better than they expected, but intangibles were reportedly not as good. Vice Premier Tian Jiyun and Mr. Xia Song [1115 2646] talked to me about this problem. They said the level and quality of service were poor etc. This problem will be summarized and improvements made later on.

**(5) Hold On to Skilled People, and Value Skilled People**

After discussing the fair, Governor Bai replied to Mr. Ho Shan-hsi on how to hold on to skilled people, value skilled people, and the problem of not losing any more good people. Governor Bai said that, in general, a certain amount of movement of skilled talent is good; it helps them go work in the places where they can make the most of their expertise, but I said a certain amount of movement. If there is a large amount of movement, this should concern us very much. In recent years, the province has taken actions and created conditions to hold on to skilled people. For example, it appropriates 20 million yuan every year to improve teacher housing, and every year various quarters raise 100 million yuan to improve the housing and research conditions of scientific and technical personnel. It has also taken actions to solve the problem of translating research results into

productivity. This translation of research into production increases the income of scientific and technical personnel. The province has also drawn up a series of integrated policies that help hold on to skilled people and make full use of the role of skilled people.

Finally, Governor Bai replied to questions about changes in government functions, changes in enterprise operating mechanisms, respect for the decision making rights of enterprises, and the outlook for Shaanxi Province's development.

**Government Circular on Disaster Relief Work**

*93CE0093B Xian SHAANXI RIBAO in Chinese  
22 Sep 92 pp 1, 2*

[Article: "Shaanxi Province People's Government Issues Circular on Conscientious Efforts in Production Disaster Relief"]

[Text] All prefecture administrative offices, all city and county people's governments, all people's government departments concerned and all directly administered agencies:

Some rural villages in the province have been stricken with a serious disaster this year. Following a decline in summer grain production as a result of continuous drought from the winter of 1991 to the spring of 1992, summer crops in the northern prefectures of Yulin and Yanan have sustained a rare summer drought, and has caused a severe drop in agricultural production. During early and mid-August, some parts of central and southern Shaanxi also experienced torrential rains and flooding of disastrous proportions resulting in grievous losses. Acting under leadership of CPC committees and government at all levels, no effort has been spared in waging a struggle against disaster and to provide disaster relief. Rush efforts were made at once to rescue the endangered public, and temporary living arrangements have been made for the disaster victims. Nevertheless, large amounts of water-destroyed facilities have not been restored as yet, and further living arrangements must be made for the disaster victims. Houses and public facilities destroyed by the water must be rebuilt, and the future task of providing production disaster relief remains extremely daunting and strenuous. The provincial government calls upon people's governments at all levels in disaster areas to realize fully the seriousness of the present situation. During the autumn and winter of 1992 and the spring of 1993, they must make production disaster relief work a main task in rural work. They must make detailed plans, diligently carry them out, and strive to win complete victory in the task of providing production disaster relief. In this connection, the following circular notice has been specially prepared:

**1. Clear-Cut Guiding Policy and Work Requirements**

The guiding policy in providing production disaster relief is as follows: maintenance of reform and opening

to the outside world, following the principles of "boosting morale, relying on the masses, self-reliance, and helping oneself with production," fully arousing the enthusiasm for production of the broad masses, necessary assistance provided by the state. Work must begin with a major effort to develop production, reform and opening to the outside world must be maintained to advance economic development, economic development promoting the revival of production, and the revival of production permitting the people to save their own livelihood. Specific requirements in working to provide production disaster relief are as follows: solid and painstaking work during this major disaster year in an effort to attain the "six nos," namely no disaster victims going without food, no living out in the open, no mindless migration, no outbreaks of epidemics, no starvation or freezing to death, and no social disorders, making sure that the people are calm and that society is orderly in disaster areas to enable the disaster victims to get through the privations smoothly.

## **2. Good Living Arrangements for Disaster Victims**

Governments at all levels in disaster areas must diligently check the amount of grain available, taking into account output from the autumn harvest. They must determine each disaster stricken peasant family's grain shortfall, list needs in order of importance and urgency, and prepare a register. Disaster victims who are short of grain but unable to help themselves should be given priority attention. Grain should be purchased from places where it is available, purchase quotas set at a single time and month-by-month deliveries organized to ensure that no problems occur in supplying grain rations. The local civil government is to be responsible for clothing and bedding needs, state relief or mobilization of the public to make donations supplementing this effort. In cases where houses have been destroyed and people have no homes to which they can return, in addition to the adoption of temporary measures, each jurisdiction must also organize personnel to make a household-by-household check to determine the need for shelter against rain and cold. When problems are found, they must be properly handled at once to ensure that disaster victims get through the winter safely. Medical personnel are to be sent at once to inundated areas to treat illnesses and to begin epidemic prevention work, strictly guarding against the outbreak and spread of disease.

## **3. Pay Close Attention to the Autumn Harvest, and Timely Autumn Sowing**

Each jurisdiction must accurately determine the times when all crops will ripen, then take advantage of good weather to assemble manpower, animal power, farm machines, and implements to harvest the crop promptly, each field being harvested as it ripens, and the grain promptly dried and stored. In addition, general circumstances must be suited to local conditions for a readjustment of crop patterns. Advantage must be taken of the favorable opportunity following rains to level the land,

to manure, and to make ready sufficient seeds, chemical fertilizer, and pesticides. When the time for sowing arrives, machinery, manpower, and animal power must be organized at once to plant seeds promptly. All autumn sowing must be fully completed by 20 October, wheat and oilseed crops being sown at the optimum time. Seriously stricken areas must make fullest use of available land, all possible being done to enlarge the autumn sowing areas to increase summer grain production in the coming year and fill the gap in output as early as possible. Once urgent efforts have been made to drain away accumulated water from cultivated land that has been inundated in the Sanmen Gorge impoundment area, townships and villages must re-assign parcels of land to each household as quickly as possible, and organize the people to level it carefully to ensure prompt planting.

## **4. Urgent Efforts To Restore Water-Wrecked Facilities**

Units in charge are to draw up restoration plans and deploy forces quickly to repair water-wrecked facilities, such as highways, city government administration, dikes, communications facilities, broadcasting facilities, and power lines. They must strive to restore them completely during the winter of 1992 and the spring of 1993 to ensure that current relief efforts can be made, and to meet long-range disaster-prevention and economic construction needs.

Peasant households whose houses have been destroyed must be organized to leave danger areas where flood waters, slippery slopes, and mud and rock slides exist that might cause disaster. Safe sites should be selected and use made of the winter and spring slack seasons in farming to work hard at restoring water-wrecked houses, and to rebuild homes by exchanging labor and helping each other. In the Sanmen Gorge impoundment area, plans must be drawn up for flood prevention facilities, for the removal of people, and to prevent the flooding of houses. These plans are to be based on the designed flood prevention water level in the upper reaches of the river and the Sanmen Gorge dam sluice gate flood retardation flood water standards. The displaced people are to be organized to build flood prevention projects and to do a good job of rebuilding water-wrecked houses. The provincial Water Conservation and Electric Power Bureau must contact the Huang He Commission to apply arrangements that the Ministry of Water Resources has already made for earliest possible implementation.

Once the autumn harvest is in and autumn sowing completed, all jurisdictions must organize and energize the masses for large scale capital construction of farmland water conservancy during the winter and spring to improve ability to guard against disasters and to increase reserve strength for the development of agriculture. In the northern prefectures of Shaanxi where ability to withstand disasters is particularly weak, the principle of "paddy fields first, flatland second, and terraced fields third" is to be followed. Work is to be concentrated on building consistently high yield basic farmland so that

after several years of unflagging effort the per capita amount of basic farmland will be approximately two mu, between 1/2 and one mu of which is paddy fields or flatland.

#### **5. Greater Organizational Measures To Improve Leadership**

The task of providing production disaster relief is a matter of major importance for the political stability, economic development, and peace of mind of the people of the whole province. People's governments at all levels in disaster areas must devote great attention to it, make it a part of their daily agenda, diligently plan and act, and work on it with vigor and determination.

Leading comrades in charge of people's governments at all levels must take the lead, and departments concerned must take part in the establishment of teams to fight disaster and provide disaster relief. They must assign departments in charge to organize carefully and give detailed direction for a good job of production disaster relief.

A strict responsibility system for production disaster relief work must be set up. The organization of this system is the responsibility of prefecture, county, township, and village administrative leaders, leaders in charge doing the actual organization and conscientiously ensuring implementation in accordance with plans. Hard hit disaster areas must assign a number of leading cadres to head up work teams. They are to be assigned specific tracts, specific townships, and specific villages to be helped with disaster relief. A grassroots cadre and party and youth league member responsibility system for households is to be established, specific persons made responsible for helping priority households with their living problems, regular checks conducted to ensure that no problems occur. For the task of rebuilding special facilities, a contract responsibility system is to be established in which all trades and all government departments in charge are specifically responsible for undertaking construction. Plans are to be drawn up for doing each job to ensure completion.

Better organizational discipline. Production disaster relief is a formidable task requiring heavy responsibility. Cadres at all levels in disaster areas must free themselves from the entanglement of meetings and social obligations, put off all activities and vacations that can be put off, stay at their posts, and devote their entire being to ensure completion of all of the tasks for which they are responsible during the crucial period of production disaster relief. They must conscientiously change their work style. Leading comrades at all levels must take the lead in going to the front line of production disaster relief, personally planning, personally providing direction, and personally taking part in actual production disaster relief. They must conscientiously summarize and propagate all effective experiences of the masses,

and promptly help solve various difficulties and problems to give impetus to the smooth conduct of production disaster relief work.

#### **FINANCE, BANKING**

##### **Securities Market Development, Future Policy Options**

93CE0102A Beijing ZHONGGUO WUJIA [Prices in China] in Chinese No 9, 17 Sep 92 pp 23-27

[Article by Lu Xiaolong (7627 2556 7893): "Growth of China's Securities Market and Future Policy Options"]

[Text] A major integral part of the market system, the securities market is an inevitable outcome of the commodity economy that has developed to a high stage. Western developed countries have a history of some 200 years in developing negotiable securities. In China, it has been 11 years since the securities industry reappeared in 1981 when treasury bonds were reinstated. By 1991, the total volume of negotiable securities issued in the country had reached about 270 billion yuan, and the variety had increased from a single form, namely, treasury bonds, to dozens of forms, including enterprise bonds, financial bonds, and stocks. In 1988, the state began to allow the circulation of treasury bonds among the people and set up treasury bond markets (secondary markets) in over 60 cities. In 1990, the Shanghai and Shenzhen securities exchanges and the Beijing national securities trading automated quotations system were established and went into operation. With these "two exchanges and one network" as its backbones, an initial nationwide securities market system began to take shape in China.

The year 1991 saw 62.4-billion-yuan worth of state-approved negotiable securities on the markets (primary markets). Of these, treasury bonds amounted to 17 billion yuan, or 27.2 percent of the total; special financial bonds 7 billion yuan, or 11.2 percent; converted bonds 7 billion yuan, or 11.2 percent; bonds issued by the state financial authorities to financial institutions and enterprises 1 billion yuan, or 1.6 percent each; investment bonds 10 billion yuan, or 16 percent; financial bonds 7 billion yuan, or 11.2 percent; enterprise bonds 12 billion yuan, or 19.2 percent; and newly listed stocks about 400 million yuan, or 0.6 percent. On securities trade markets, the total volume of transactions for the year was 55.47 billion yuan. This included transactions of treasury bonds in the amount of 44.79 billion yuan, accounting for 80.7 percent of the total; capital construction bonds 220 million yuan, or 4.4 percent; enterprise stocks 4.51 billion yuan, or 8.1 percent; and short-term enterprise bonds 1.01 billion yuan, or 1.8 percent. During the first half of this year, transactions through the "two exchanges and one network" totaled 30.961 billion yuan. Of this, stock transactions amounted to 21.643 billion yuan, or 69.91 percent of the total, the remaining 30.09 percent being various bond transactions. Securities market transactions show a tendency to increase each

year. Among them, stock transactions have grown faster than others and are expected to gradually replace bond transactions as the mainstay on the securities market.

Despite its short history, China's securities market has demonstrated remarkable positive effects:

1. It has quickly garnered the funds urgently needed by the state financial authorities and by various construction projects in the course of economic development, thus serving as a booster for the rapid development of the national economy. Over the past few years, the proportion of the central government's revenue in the total national income has declined annually. The state no longer has enough financial strength to support the construction and development of key industries and enterprises. Nor can the expansion of bank loans meet the financial needs arising from the rapid development of various economic sectors. On the other hand, practical experience has proved that large amounts of funds can be made available within a very short time through the securities market.

2. To make up for financial deficits, it is much better to issue state treasury bonds than increase the issue of currency because the former will not trigger monetary inflation. The direct fund-raising method has many advantages in its mechanism over the indirect fund-raising method. For instance, an enterprise that has issued bonds can possess for a long time (three to five years in general) the receipts from selling the bonds. If an enterprise issues stocks, it can use forever, and free of charge, the receipts from stock sales. Furthermore, the securities market is more attractive to the broad masses of investors (generally urban and rural residents) than other fund-raising channels.

3. Enterprises are prompted to improve their operations and management and accelerate their technological progress, thus creating better economic returns. Issuing stocks is an effective way for enterprises to gear their operations to market demands, act as the market dictates, and subject themselves to supervision by the public. This is because they must improve their operations and management, develop new technology, and expand the market for their products if they are to maintain the strength of their stocks on the securities market and preserve their credibility as well as the fame of their products in the minds of consumers. Facts over the years have borne out that enterprises that have entered the securities market are able to do better than others in developing production and improving economic returns. For example, during the three years from 1988 to 1990, the five joint-stock enterprises in Shenzhen with their shares listed on the market scored an average annual profit growth rate of 97 percent, while most other industrial enterprises suffered a downslide in operational returns.

4. The securities market is conducive to economic restructuring, which enables funds to flow toward thriving enterprises. Economic structure encompasses

product mix, enterprise organization, and geographic layout. How to conduct effective economic restructuring, especially the adjustment of reserves, according to domestic and international market demands, the level of scientific advance, and the requirement of rational geographic layout is a question that has long perplexed us. This question can be properly solved by stock trade on the securities market. If an enterprises has good economic returns and bright prospects for future development, it can quickly garner funds on the securities market. Otherwise, it cannot get the funds it requires, and if it has listed stocks, investors will dump the stocks on the market and buy stocks issued by other enterprises with better returns and greater prospects for development. Such flow of stocks means that the survival of the superior and the extinction of the inferior in the world of enterprises and the restructuring of industry are realized through the market force and the public in society rather than by order of administrative authorities. Through the flow of stocks, capital is moving from dwindling enterprises to thriving enterprises, thereby restructuring the industry and product mix.

5. A sizable part of consumption funds can be turned into production funds. In the first half of 1992, the total people's savings in China's urban and rural areas was more than 1 trillion yuan. The people's assets will continue to increase with the development of the economy and the improvement of their living standards. The people are no longer content to deposit in banks their surplus money after meeting consumption demands. Instead, they hope to invest this money in various ways. Raising funds to meet construction needs by developing securities markets and increasing the issuance of bonds and stocks can play a significant role in turning a sizable part of consumption funds into construction funds, thus reducing the pressure of purchasing power on the consumer goods market and fore-stalling inflation.

While our securities market is playing a positive role, there are also some inevitable problems. This is because in China the securities market is still in the initial stage of development. Some of these problems are inherent in the initial stage of securities market development; others stem from questions existing in our economic system. Main problems are:

1. The securities market is too small; supply falls short of demand.

Now, there are "two exchanges and one network" in China. The "one network" is the national securities trading automated quotations system. This is an over-the-counter market, not open for transactions between individuals at the moment. As can be seen, our securities market is still very small. During the past two years, bonds and stocks have become the most popular investment instruments for the Chinese people. While several years ago treasury bonds had to be sold by compulsory administrative measures, now they have become a target item that people are vying to buy. Stocks are even more

attractive to the public. With just two exchanges—the Shanghai and Shenzhen exchanges—at present, residents in other localities find it quite inconvenient to make investment. The plan to set up more exchanges cannot be carried out shortly because of the restrictions of regulations and lack of qualified personnel and technical facilities for running additional exchanges. What is more, the Shanghai and Shenzhen exchanges have only 35 listed enterprise stocks, which cannot meet the vast demand. It is impractical to list more stocks for the following reasons: There are still too few enterprises in China that have switched to the shareholding system. Those few enterprises that have adopted the shareholding system are quite substandard in terms of internal operational mechanisms, and many do not qualify to list their stocks on the market. As a result, there is a serious imbalance between the supply and demand of stocks. In 1991 [year as published], the total volume of stock transactions was 21.643 billion yuan, which was way out of line with the people's more than 1 trillion yuan savings. This caused the stock prices to skyrocket to an extent that surprised the people in the world. Using 19 December 1990 as the base period, the stock index at the Shanghai securities exchange was 1,232.95 points on 29 May 1992, or an average annual growth rate of 493.16 percent. In Taiwan, which used to be considered by the international financial community as a region with the sharpest rise in stock prices, the index had not exceeded 1,000 points until 17 October 1986, using 1966 as the base period. That is to say, it took as long as two decades for the stock price index to increase 10 fold, the average increase per year being 12.2 percent. The period from 1986 to 1989 saw a speculation frenzy on Taiwan's stock market. The stock index broke the 10,000-point mark on 8 August 1989. While the stock index rose from 1,000 to 10,000 points, more than two years elapsed. This means an average rise of 132.33 percent per annum. Even such a high rate was only 26.83 percent of Shanghai's annual rate of 493.16 percent. According to the general law of changes in stock prices, skyrocketing means a potential crisis of plummeting. Without appropriate control measures, it is bound to cause a grave impact on social stability and seriously impair the normal development of the securities market.

2. Management of the securities market is imperfect; there are excessive speculative activities on the market.

China's securities market has a relatively short history. Its managerial personnel are not well trained, its managerial measures are imperfect, and necessary regulations and laws are lacking. Participants in the securities market—market managers, securities issuers, dealers, or investors alike—are all new hands. None has a sound grip of the law governing stock market operations. All these have caused the inherent weakness of the market and resulted in excessive acts of speculation. For example, the Shanghai Securities Exchange once put into effect a point-control system to suppress the sharply rising stock prices. Later, however, an unbridled black market appeared, and the exchange had to lift the stock

price control on 18 February 1992. The decontrol led to a sharp rise in the stock turnover rate and the ratio of stock price to earning per share, and triggered excessive speculative activities on the market. In May, the turnover rate on Shanghai's stock market was 49 percent, equivalent to 5.88 times per annum, whereas in developed countries, such as the United States and Japan, the turnover rate is generally 0.5-1 times. The May price-to-earning ratio in Shanghai was as high as 250.06, while the ratio on the world stock market generally floats between 15 and 20. Even in the Taiwan stock market, which used to have the highest price-to-earning ratio, the maximum ratio ever registered was 82.9, still way below Shanghai's record. China's securities market is also noted for big fluctuations. On 21 May this year, the very day the stock prices were decontrolled, the prices of five stocks rose anywhere between 192.7 and 470.8 percent. This was, indeed, a strange phenomenon in the world. Generally speaking, a 20 percent daily fluctuation rate is already abnormal. Big fluctuations like those in China were indeed unprecedented, and such big upward fluctuations were especially a rarity. Even during the three well-known stock disasters in the world, the daily fluctuation rates never exceeded 25 percent. The maximum drop was 24.4 percent, which occurred on 12 December 1914, the eve of World War I. On 26 December 1929, the eve of the world's grave economic crisis, the drop was 12.8 percent. Even on 19 October 1989, "black Monday," the drop on the New York stock market was only 22.6 percent. The skyrocketing stock prices in China, albeit not a disaster, were fully indicative of the lack of savvy on the part of stockholders and investors. Without an adequate knowledge of the risks involved in the stock business, most of them view investment in stocks as a way to maintain or increase the value of their surplus money. This is a hidden detriment to the normal operation of the securities market.

3. Issuance of stocks is not open enough; unfair trade appears on the market.

A basic principle that securities market transactions must comply with is fairness, justice, and openness. Yet many unfair phenomena exist on China's securities market. Few of the high-yield bonds are really issued through open channels. Often there is a big gap between the published quantity of issuance and the actual quantity that the masses standing in queue can purchase. Many more problems exist in issuing stocks. Chief among them are: (1) Of the stocks that can be listed, a large part are retained by enterprises themselves. Some enterprises take stocks as a kind of welfare. They sell most of the stocks to their staff members and workers or those with whom they have a special relationship. Only a relatively small fraction of the stocks are openly offered for sale at the securities exchange. (2) Securities exchanges or companies conduct inside transactions, thus further reducing the quantities openly put on the market. (3) Some securities companies do not set a reasonable stock price based on supply and demand on the market. When issuing stocks, they purposely adopt a

lower price or a little higher price—they always take advantage of the lower price to benefit themselves. These problems have aroused strong complaints from the public.

#### 4. The securities market is of the closed type and not open enough.

There are two criteria to test the degree of openness of a securities market. First, to what extent are the market changes affected by major political and economic activities at home? Second, how closely are the fluctuations on the domestic stock market related to international market fluctuations? In China stock market changes are not so closely linked to changes in domestic economic life. In particular, they do not mirror the operational results of the enterprises, nor do they give a timely and accurate reflection of our macroeconomic life. Therefore, we feel that our securities market is out of joint with and cannot be fused into the unified market composed of the commodity market and labor market. Still less is our domestic stock market related to the international stock market. Now, the only link between our stock market and the outside world is embodied by the renminbi-denominated B shares issued for overseas investors. But because they are too small in number and cannot be circulated on the market, they are actually irrelevant to the stock market in the world. For example, in 1990 when there was an across-the-board stock price drop on the world market, prices showed a several dozen-fold increase on China's Shenzhen stock market. The first half of 1991 witnessed an all-round revitalization of the world stock market, while prices on the Shenzhen stock market declined again and again. This indicates that China's securities market is far from open and has not developed soundly.

In addition, because Chinese joint-stock enterprises lack a unified standard, there are no standard share ownership certificates. Another problem is that there is no state organ of power that exclusively administer the securities market. Multi-pronged management and multi-department administration have resulted in disorderly market operations. All these have seriously hindered the development of China's security market.

Now, while we are further developing our securities market, it is imperative, first of all, to solve the above-mentioned problems. The appearance of securities is an outcome of the commodity economy that has developed to a certain stage. The securities market, though a component of the entire market system, has its own laws of operations and development. To foster our securities market, we should not only take account of China's specific conditions, but also draw on the ready experience of developed countries. We should avoid making serious errors and repeating the mistakes of others. For the development of our securities market, we should open a path that conforms to China's specific conditions, serves socialist construction, and is compatible with the international practice. In striving to develop our securities market, we are confronted with several major policy options as follows:

#### First, Location of Securities Exchanges

China now has only the Shanghai and Shenzhen securities exchanges, far from meeting the needs of securities trade. There are strong requests in various localities for the establishment of more exchanges. Setting up new exchanges as appropriate is a measure we must take to expand the securities market and alleviate the problem of supply falling short of demand. However, the locations of securities exchange is an important policy issue. It is not true that if we have a subjective desire to establish more securities exchanges, we can do so and the new exchanges will operate normally for a long time to come. Instead, development of securities exchanges follows a specific law and is subject to the supply and demand of securities. In this regard, Japan's experience can be used. Japan had many securities exchanges shortly after the securities industry began to develop in that country. As time passed by, however, only eight exchanges remain at present. They are the exchanges in Tokyo, Osaka, Nagoya, Kyoto, Hiroshima, Fukuoka, Niigata, and Sapporo. Comparatively flourishing among them are the Tokyo, Osaka, and Nagoya exchanges, while the other five are in sluggish condition. The Tokyo Exchange is the largest in Japan with a daily trade volume accounting for about 70 percent of the country's total. All large Japanese joint-stock enterprises prefer to have their bonds or stocks listed at the Tokyo Exchange, while small enterprises are listed at exchanges in their respective regions. This state of affairs suggests that we should not have too many securities exchanges in China. Our exchanges should be rationally located in line with the condition of our economic development. Not every province should have an exchange. As for the principles for setting up exchanges, we may consider the following: (1) They should be located in the central cities of economic zones; (2) they should be located in cities where big and medium state-run enterprises are relatively concentrated; and (3) they should be located in cities where the population is dense, and the residents have more surplus money after meeting the demand of consumption and possess considerable savings. It is appropriate to say that seven to 10 securities exchanges are not too many in a large country like ours. I disagree with the opinion that "it is appropriate to have five securities exchanges in China." In China, which has a vast territory and a large population, securities trade will be hampered if there are too few exchanges. Especially in those areas where communications networks have not been well developed and there are technical problems in conducting transactions and making listings remotely, sparsity of securities exchanges will give investors the impression that they are not treated fairly and justly because of their geographic locations.

#### Second, Scale of Listings of Securities

Currently, supply falls short of demand on China's securities market. This problem must be resolved promptly. How big is the scale of listings that we should maintain? Analysis of the actual market condition in developed countries cannot give us an appropriate figure for reference. This is because the economic development level and fund-raising ability vary from country to

country, and it is very hard to size up the market demand for securities. For example, in the United States, a sizable part of investments in securities are made by non-Americans. It is quite common that shares of big enterprises are held by foreign capitalists. Even in the case of the recently issued U.S. government bonds, about one-third were purchased by Japanese. In China, the securities market is very small, and the main problem is inadequate supply to meet the demand. For this reason, it is too early to study the appropriate ceiling of securities listings. On the other hand, in striving to put more new securities on the market, there are a number of policy issues to be studied. Now, all localities, departments, and enterprises hope to raise funds by the direct method of issuing bonds or stocks. Negotiable securities have, in reality, become a very precious special "organizational resource." Whoever obtains approval to issue securities seems to get a certain "privilege," which is tantamount to a preferential-policy treatment. Such being the case, we should use the permission for issuance of securities and the approval for enterprises to experiment with the shareholding system as a policy-enforcement leverage. This preferential-policy treatment should be given to key and "bottleneck" industries in the national economy according to the needs of the national industrial policy.

Based on the "Opinions on the Standard for Joint-Stock Companies" promulgated by the State Commissions for Restructuring the Economic System, a joint-stock enterprises must have a net asset value of 10 million yuan or more. In my opinion, however, an asset value of 10 million yuan is too small for enterprises to list their stocks. We should select still larger enterprises as the first ones to proceed with the reform toward the shareholding system and allow them to list their stocks on the market. We may consider setting the minimum net asset value at 50 million yuan for enterprises with listed stocks. As for the requirements to be met by small enterprises to list their stocks, we need not consider this question now and in the near future. Giving priority to big enterprises in listing stocks has the following advantages: Large enterprises have abundant capital and comparatively good economic returns. This means less risks to investors. Listing their stocks will help stabilize the market and enhance shareholders' confidence. A stable stock market is of utmost importance to the securities industry at its initial stage of development.

#### Third, Composition of Enterprise Share Ownership

There are three kinds of share ownership in China's joint-stock enterprises: state shares, legal-person shares, and individual shares. State shares result from incorporating state-owned assets into the enterprise. Legal-person shares are those shares possessed by enterprises as legal persons after investing in other enterprises or companies the assets that they are entitled to use. Individual shares are those shares held by staff members or workers of joint-stock enterprises or by the public in society in their own names. In the total share ownership of the 60-plus enterprises that have openly issued stocks

at present (including those whose stocks have yet to be listed), these three kinds of shares are roughly in a 5:3:2 ratio. State shares and legal-person shares are public shares. They are in line with the characteristic of China's public ownership system and represent a unique feature of the Chinese shareholding system. At the moment, stock trade on China's securities market is limited to individual shares, which account for only a small fraction of the total share ownership, while state and legal-person shares are not involved in market transactions. This has seriously affected the trade volume on the securities market. If we can properly solve the current question of share-ownership composition of joint-stock enterprises, that is, allow state-run enterprises to appropriately reduce the percentage of public shares and increase the proportion of individual shares, we will be able to list more shares on the market and satisfy part of the demand, even if no more enterprises are switched to the shareholding system.

After all, how much public share ownership is necessary to preserve the socialist nature of enterprises? There are many arguments over this question. One opinion is that at least 50 percent or so of share ownership should be in the hand of the state; that is, the state shares should be more than one half of the total shares of enterprises. Another opinion holds that the requirement is met if over one-half of enterprise shares are "public shares" (consisting of state shares and legal-person shares). In other words, it is not necessary for the state itself to own more than one-half of the shares. There is also an opinion based on the experience of operation of the management mechanism in foreign joint-stock companies—that is, an investor can control the enterprise as long as he holds 30 percent of the share ownership. According to this opinion, an enterprise with no less than 30 percent of its shares held by the state can preserve its public-ownership nature. I am in favor of the last opinion for the following reasons: (1) It is hard to judge the nature of an enterprise simply from the makeup of its shares. If 70 percent of the shares of an enterprises are individual shares—which are usually held by many people individually—no individual shareholder can truly control the enterprise. If the remaining 30 percent are state shares managed by an organization such as the National Administration of State Property, then the organization, which represents the state, will be able to control the enterprise, and the enterprise will engage in production or other operations according to the state's intention. In that case, all activities of the enterprise will be in the interests of the people as a whole. (2) The purpose of the enterprise in issuing stocks is to raise funds. If the state holds an overwhelming majority of the shares of the enterprise, and only a small fraction of the shares are individual shares, which can be listed on the market, then there is no need to raise funds through the securities market. The requirement for funds can be met by state loans. This will defeat the purpose of the securities market as a means for raising large amounts of funds. (3) An excessively high percentage of state shares will, in reality, hinder individual share trade and restrict

increase in individual investments. If individual shares increase, state shares must increase accordingly so as to maintain the fixed ratio between the two. Since our state financial capability cannot meet the needs of increasing investment in enterprises, it is necessary either to reduce the percentage of state shares or halt the increase in individual shares. In the latter case, the enterprises concerned will eventually be compelled to withdraw from the securities market. (4) A high percentage of state shares is not conducive to the flow of production elements and industrial restructuring.

#### **Fourth, Securities Market Management and Legal System Construction**

To maintain the orderly operation of China's securities market, it is imperative to form a powerful state organ in charge of securities management and enact necessary laws and regulations. So far, 15 sets of securities market regulations have been promulgated. They have played a certain role in standardizing securities market management. It should be noted, however, that all these regulations are provisional and localistic in nature. Should contradictions or disputes occur in the future, it will be very hard to find an applicable standard rule to go by. It is, therefore, imperative to promulgate, as soon as possible, appropriate laws and regulations, such as "Joint-Stock Company Law" and "Securities Trade Law," so as to have clear-cut and detailed provisions on establishment and bankruptcy of joint-stock companies, security certificate format, issuance and transactions of securities, securities exchanges, securities brokers, and protection of shareholders. Some comrades hold that in drawing up these laws and regulations, it is necessary to take into account the fact that most joint-stock enterprises in China have resulted or will result from the transformation of public-owned enterprises, or in other words, the laws and regulations must have strong "Chinese characteristics." However, if we are to extend our direct fund-raising channel to the international financial market in the future, these laws and regulations must be compatible with the international practice so that they will fit the international securities market and facilitate our securities trade internationally. Moreover, securities management is an arduous and complicated task. It is imperative to set up a special organ to undertake this responsibility. This organ must be an organ of power; otherwise, it cannot meet the needs of securities market management. We should start making efforts to form a security administrative commission capable of coordinating the work of the financial, taxation, planning, and banking departments while undertaking sole responsibility for managing the securities market.

Securities market development is a complicated systems engineering project, which requires more accurate implementation of the policy than the development of other markets. Now, we all agree that we have to develop the securities market, and a stock craze is sweeping the vast land of China. However, we must recognize soberly the dual nature of the securities market and foster a reasonable consciousness of financial business. It is necessary

to call the attention of both investors and those receiving investment on the securities market to the following: The securities market has the function of assembling funds, but it can neither create funds nor fill the gap between the total supply and demand of funds in society. Securities have the function of directing the flow of tangible funds, but they themselves are intangible funds. Securities have the function of adjusting the makeup of funds, but their main function is to adjust the makeup of fund supply. In view of this, we should never entertain an unrealistic expectation about the securities market, but should respect its operational rules and act in accordance with the objective law governing its operations.

## **SMALL-SCALE ENTERPRISES**

#### **Private Enterprises Emerge as New Economic Force**

*93CE0078A Beijing ZHONGGUO JINGJI TIZHI GAIGE [CHINA'S ECONOMIC STRUCTURE REFORM] in Chinese No 9, 23 Sep 92 pp 12-17*

[Article by Lu Xueyi (7120 1331 5669) and Zhang Houyi (1728 0624 5030): "Another 'New Force' in Process of Coming to the Fore"]

[Text] For over 10 years, both the individual entrepreneur economy and the private ownership economy have seen very great development that requires a re-understanding of basic Marxist principles as they relate to China's national circumstances.

The individual entrepreneur and private ownership economies are an integral part of the socialist society and economy. They play a necessary and beneficial supplementary role, and this role cannot be replaced.

Not only will the individual entrepreneur and private ownership economies endure for a long time in the generally socialist society, but they will develop greatly as well. Individual and privately-owned business concerns are assistants not adversaries in the development of social productivity. The individual entrepreneur and private ownership economies must be organically linked to the public ownership system and all other economic forms, sharing weal and woe, thereby improving overall both the development of socialist productivity and the people's standard of living.

Since the Third Plenary Session of the 11th Party Central Committee, China's rural villages, which took the lead in reform, have undergone historical changes. "The completely unexpected largest harvests are a new force that has come to the fore for the development of township and town enterprises, for the sudden emergence of a diversified economy, for the cooperation of a commodity economy, and for the running of various kinds of small enterprises." (Deng Xiaoping's words).

It is noteworthy that as the reform of China's cities and countryside steadily moves ahead, yet another "force" is

coming to the fore, and that is the development of the individual entrepreneur and private ownership economies. In view of this economic reality, it is necessary to re-understand the basic principles of Marxism as they relate to China's national circumstances in order to guide their healthy development so that they can play a more positive role in the building of a distinctively Chinese brand of socialism.

#### **Very Great Development of the Individual Entrepreneur and Private Ownership Economy**

During the early 1950's, the individual entrepreneur economy occupied a fairly important position in the production and commodity circulation fields in China's cities and countryside. In 1954, output value of individually-owned city and countryside handicraft industries accounted for approximately 20 percent of the country's industrial output value for the year. In addition, 3.3 million people in 2.8 million households worked in individually-owned businesses whose retail sales amounted to about 40 percent of total commodity retail sales nationwide. However, as a result of socialist transformation, particularly the "cutting off of the tail of capitalism" during the Great Cultural Revolution, not many of them remained. By 1978, only 150,000 people were connected with individual industries and businesses in cities and towns throughout the whole country.

Following the advent of reform and opening to the outside world, the individual entrepreneur and private ownership economy revived and developed fairly rapidly. Today, the individual entrepreneur and private ownership economies are as thick as the hair on a dog. In recent years, in particular, not only have they developed rapidly, but their position and role in economic and social life has become more prominent.

In terms of employment, in 1991 individual entrepreneurs and privately-owned enterprises employed 24.419 million people, or 17.1 percent of the number of staff members and workers in enterprises under ownership of the whole people or under collective ownership in cities and towns. This was 4.2 percent of the country's work force.

In terms of output value, registered individual household-operated industries nationwide produced 161 billion yuan, or 5.7 percent of the country's gross industrial output value.

In terms of total social commodity retail sales, individual entrepreneurs nationwide had sales of 184.44 billion yuan in 1991, or 19.6 percent of total commodity retail sales nationwide.

In terms of social contribution, individual household and privately-owned enterprises paid 17.9 billion yuan in taxes in 1991, up 22.9 percent from the previous year, and amounting to 6.0 percent of total tax receipts nationwide. In some counties and cities, they accounted for 50 percent or more.

The revival and development of the individual entrepreneur and private ownership economies has played a positive role in spurring production, in invigorating commodity circulation, in expanding markets, in making the economy flourish, in increasing employment, and in satisfying the material and cultural needs of the public. This must be deemed a major product of reform and opening to the outside world.

#### **Very Great Future Development of the Individual Entrepreneur and Private Ownership Economy**

In the process of modernization, we must move ahead with the building of the economy with all possible speed, urgently solving some difficult problems such as what to do with surplus labor, where to find the funds for economic construction, and how to develop tertiary industries. Without doubt, solution to these difficult problems will require vigorous development of the publicly owned economy; however, at the same time all positive elements must be mobilized to develop diverse economic components in which the system of public ownership is the main entity. The individual entrepreneur and private ownership economy that is now suddenly rising and that possesses stubborn vitality is growing and developing to occupy niches that the economy cannot occupy, cannot readily occupy, or need not occupy. It is playing a beneficial and much needed supplementary role and a role for which there is no substitute in many regards. It is in this sense that we say that the individual entrepreneur and private ownership economy, which has already developed very greatly, will see very great future development.

A publicly and privately-owned economy is one channel for absorbing and placing surplus labor.

During the past more than 40 years, the rural population has increased manifold, the amount of cultivated land per capita becoming less and less with each passing year. During the 1950's the work force farmed eight mu of land per capita, but today the figure is less than four mu. The former "four people work to feed two" has changed to "four people eat the rice that two produce." As the cultivated land area has decreased, the agricultural labor productivity rate has gradually risen and the population has steadily increased. It has been estimated that there is currently a more than 200 million labor surplus in rural villages, nearly 100 million of which have been taken on by township and town enterprises. This leaves another more than 100 million to find a way to earn a living. By the end of the present century, the rural work force will reach more than 500 million, but even at the current level of production, agriculture will need only 200 million of them. The remaining more than 200 million will have to transfer to nonagricultural industries. This means that within eight years from now, the rural villages will have to find employment for more than 200 million surplus workers. What an enormous piece of social engineering that is!

It is noteworthy that the greatest rural labor surplus is in central China prefectures. On the one hand, the first steps toward industrialization and commercialization in these prefectures are breaking the family bond that has naturally formed between agriculture and handicraft industries. On the other hand, a small plot of land for every household can both provide needed farm products without requiring a greater work force. Thus, the surplus workers released from the land are free men no longer bound to the soil. The deep down reason for the large scale migration of 1 million peasants every spring is attributable to this. We must take action to guide the widening of employment avenues and to develop economic diversification in order to transfer this mighty army into the nonagricultural sector.

The employment situation in cities and towns is also very grim. Every year another approximately 3 million or more people are being added to the city and town work force, and following factory, enterprise, party and government agency reforms, another group of staff members and workers was added as a result of "optimization" and retrenchment in addition to fairly able-bodied and skilled retirees. Taken together, this is another sizable group that is also seeking new employment positions. Statistics show that for every person provided a job, fixed assets must increase by an average 10,000 yuan in heavy industry and by 6,000 yuan in light industry. For the state to take on the problem of providing employment for everyone in cities and towns is clearly impossible given the country's present strength. However, all that was needed was a policy for the individual and private economy to place 7.1 million city and town workers in jobs during the past more than 10 years.

The individual and private economy provides one way to amass civilian funds for development of the economy.

China is presently seriously short of funds for construction, but savings accounts and money in the hands of the public today total 1.3 trillion, which equals the investment in fixed assets for 15 years at the present level. It is nearly the total output value of the country's industrial assets for the past 40 years; and it is six times the amount of the country's fiscal revenues for the past four years, plus the total investment of foreign businessmen in China (nearly \$30 billion).

Civilian funds on such a scale are not owned evenly by people throughout the country but are concentrated in the hands of a very few people having high incomes. Some of these high income people are the heads of individual and privately-owned enterprises. Since no good investment mechanism and no good economic and social environment exists, they either do not dare or they are unwilling to invest in the production field more of the funds that they hold.

We believe that while expending a great deal of energy to import foreign capital and operate three kinds of partially or wholly foreign-owned enterprises, we ought to be putting more energy into drafting suitable policies to

exploit domestic capital and operate more privately-owned enterprises. We ought to use correct policies to organize the elements of production and tap the social wealth that lies hidden underground. The role of such policies should not be underestimated.

Individual entrepreneur and private ownership economies are a major force for the development of tertiary industries.

China's tertiary industries have developed slowly and are at a fairly low level. They provide a vast area in need of development, and the individual entrepreneur and private ownership economies can do great deeds in this field. Most of the enterprises that individual entrepreneurs and the private ownership economies operate are those that are either beyond the reach of the publicly owned economy or from which profits are small and that have many outlet points, cover a wide area, are small in size, dispersed, and provide custom services. To a certain extent, they have eased the conflict between "many things that no one does and many people with nothing to do," and between "difficult buying" and "difficulty selling." In a situation of little state investment, they have widened employment avenues, enriched the public's livelihood, and invigorated market circulation.

The individual entrepreneur and private ownership economies are important for the building of market towns and the fostering of markets.

Market towns are communities smaller than cities peopled largely by workers in nonagricultural industries. Markets are permanent sites for the centralized buying and selling of goods.

Statistics show more than 70,000 market towns throughout the country, most of the busiest, most lively, and most attractive ones to buyers and sellers being those operated by individual entrepreneurs and privately-owned enterprises.

Shishi City, which is located in a part of Fujian Province that many overseas Chinese call home, has 18 merchandise streets, four specialized markets, four commercial buildings, and more than 6,400 shops and stalls large and small. In 1991, the city's gross output value, fiscal revenues, tax payments, and social commodity retail sales were all more than three times the figure for three years previously. An important reason for such affluence and prosperity is the nearby 8,483 individual entrepreneur plants and businesses, the 3,266 privately-owned industry and transportation enterprises, and the 296 three kinds of partially or wholly foreign-owned enterprises.

Practice everywhere shows that "the building of one market causes the founding of a number of industries, enlivens the economy over an area, and makes the public prosperous." The individual entrepreneur and public ownership economies are an important force for the building of market towns and the invigoration of markets. Wherever individual entrepreneur and private

ownership economic policies are put into practice, there the market towns and markets flourish. By the same token, the construction of market towns and markets can spur development of the individual entrepreneur and private ownership economy.

An individual entrepreneur and private ownership economy can also play a major role in developing the economy of hardship areas.

Approximately 5 percent of China's population still lives below the poverty line, their insufficient food and clothing problems as yet unsolved. An abominable natural environment, poor conditions for production, frequent natural disasters, poor basic economic and social facilities, and backward education are all reasons that such areas are unable to escape from adversity. However, the cadres and public in these areas also have a weak conception of a commodity economy, in addition to which their collective economy is weak. They are unable to develop and use local economic and social resources. These are also important reasons why they are unable to escape poverty. Therefore, it is even more necessary to liberalize policies, remove restraints, and vigorously develop the individual entrepreneur and private ownership economies in these hardship areas, and bind together the scarce local human talent, funds, and natural resources to fashion one new economic growth point after another, to expand avenues for production and commodity circulation, and to spur economic development. In recent years, the Yimeng mountain region of Shandong Province has had notable success in helping the needy escape from poverty. One of its experiences was "development of entrepreneur households one by one, adding one prosperous household here, decreasing one needy household there, and making a large number of households wealthy."

#### **Several Problems in the Healthy Development of the Individual Entrepreneur and Private Ownership Economies**

This suddenly rising force of an individual entrepreneur economy and a private ownership economy has not yet developed to the level that it should either in numbers or scale. If the individual entrepreneur and private ownership economies are to see very great and healthy development, understandings will have to be clarified, and new ground broken on theories and policies. In addition, a nonpublic ownership economy management system suited to the market economy will have to be built little by little to create a fine economic and social environment for healthy development of the individual entrepreneur and private ownership economies.

1. The individual entrepreneur and private ownership economies are an integral part of the socialist society and economy and not just a "supplement."

The socialist society and economy is composed of the large parts: the economy and the nonpublicly owned economy. The individual entrepreneur and private ownership economies, which are part of the nonpublicly

owned economy, like the state-owned and collective economies, which are part of the economy are both integral parts of the socialist society and economy. They are like different parts of a machine all of which are needed and none of which can be taken away. As part of our standpoint, we must make clear that the individual entrepreneur and private ownership economies are an important integral part of the socialist society and economy. We must not regard them as a "supplement" to the economy that can be dispensed with or that can exist in large or short measure.

Naturally, the position and role of each of the integral parts of the socialist society and economy are not completely equal. One of the substantive characteristics of socialism is the paramountcy of public ownership, multiple economic components coexisting.

Generally speaking, the public ownership economy holds the dominant position in a socialist society and economy, the individual entrepreneur and private ownership economies occupying a subordinate position. Under special circumstances, however, and in different places, different sectors, and different industries, the situation is greatly different. In certain areas, sectors, and industries, for example, the individual entrepreneur and private ownership economies might supersede the public ownership economy to occupy a commanding position. Does that mean privatization and the restoration of capitalism? The answer is negative. In overall and total terms, the public ownership economy continues to hold the dominant position in the total national economy. It leads the other economic components in moving ahead along the socialist path.

Some comrades suppose that the word "supplementary" applies to the role of the individual entrepreneur and private ownership economies. To be sure, by comparison with the public ownership economy, the individual ownership and private ownership economies actually do play a needed and beneficial supplementary role. A general consensus and agreement exists on this point. However, such an understanding alone is not enough; one must realize that in certain places, industries, and trades, and under certain prescribed conditions, the individual entrepreneur and private ownership economies play a role that the public ownership economy cannot replace. We believe that a correct formulation should be that the individual entrepreneur and private ownership economies are an integral part of a socialist society and economy that play a needed and beneficial supplementary role and an irreplaceable role in the public ownership economy.

2. The existence and development of the individual entrepreneur and private ownership economies is a socialist long-term plan and not an expedient measure.

Some comrades suppose there is no difference between the present privately-owned economy and the privately-owned economy in the old society, and that it is only because the current level of development of productivity

is not high, the state treasury is in urgent need of funds, and there is simply no alternative that resort has to be made to the initiative that the privately-owned economy provides. Consequently, the private ownership economy can only co-exist with the socialist public ownership economy for a little while, and when conditions permit (such as "limited development," or "appropriate development") today's "coexistence" will become tomorrow's "transformation." If such a view guides the drafting and implementation of policies for the individual entrepreneur and privately-owned economies, people will tend to act in terms of immediate profits to be gained and tactical necessity. At the slightest sign of trouble, the individual entrepreneur and private ownership economics will be called into question. Actually, these comrades do not realize the historically progressive nature of the individual entrepreneur and private ownership economies in the overall stage of socialism. The individual entrepreneur and private ownership economies are an important integral part of the socialist society and economy; the development of individual entrepreneur and private ownership economies under socialism cannot be misconstrued to be an expedient rather than a strategic measure. A socialist society must arouse all positive elements and use all economic forms to absorb and provide for all surplus labor, to organize the various elements of productivity, to develop the market economy vigorously, and to increase overall national strength. The individual entrepreneur and the private ownership economies are effective means for developing the market economy. In all socialist societies, the individual entrepreneur and private ownership economies not only must exist for a long time, but they must also develop vigorously.

"Is no socialist transformation of the private ownership economy to be conducted again?" Yes; another socialist transformation is not necessary. This is because the socialist system has been established in China for a long time and has developed to a certain extent. Socialist countries can supervise and control the private ownership economy through laws and regulations that guide their healthy development. Like other components of the economy such as the system of public ownership, they can jointly make the socialist market economy boom and develop society's productivity, and ultimately complete their mission in the process of building a distinctively Chinese brand of socialism. Specifically, the following reasons make this possible:

First, according to the rules and regulations for privately-owned enterprises, no less than 50 percent of the after-tax profits of privately-owned enterprises are to be used as a production-development fund, then collection of the individual income regulation tax is to be waived. The goal is to encourage privately-owned enterprises to expand the scale of their production. The larger the scale of enterprises production, the more they absorb and find jobs for labor, and the more taxes they pay the state (in addition to the transaction tax and payments into the energy and transportation key construction fund, they

must pay a 35 percent income tax), the more wealth they create for society. As for privately-owned capital, so long as it constantly circulates in the social reproduction process, legally speaking, ownership rights appear of little importance. Like privately-owned means of production and means of production, they create wealth for a socialist country. They both create the material foundation for socialism.

Second, to limit excessive consumption and avoid squander and waste, a progressive tax rate applies to the after-tax profits of privately-owned enterprises that can be used for individual consumption. A 40 percent individual income regulation tax is collected, the greater the portion available for individual consumption, the heavier the regulation tax. In addition, at the level of consumption in China today, the consumption problem for individuals and their families is a limited one. To explain further, even were billionaires to appear, we could regulate them by using tax levers such as prescribing proper transfer taxes (inheritance or gift taxes), thereby redistributing many times over the private property of the entrepreneurs of privately-owned enterprises. Encouragement to develop production, limiting excessive consumption, and steadily expanding the scale of operations are effective means for promoting what is beneficial and restraining what is harmful.

Third is the organic linking of the privately-owned economy with other economic forms including the system of public ownership so that all flourish in common. This is not just a theoretical assumption but an insight we have gained through practice. At the present time there is a general linking, permeating, and blending between many aspect of the private ownership economy and other economic forms, such as joint investment and joint operation; joint investment with one party in charge of production and one party in charge of sales, or one party producing and another party supplying raw materials and selling the products. Even though the partnership among various economic forms is not very stable, this provides a clue to the trend of development of the privately-owned economy.

As the size of privately-owned enterprises increases, the difficulties they face in production and operation increase. Thus, they are impelled to form partnerships with other economic forms, foremost of all with the economic form that holds the dominant position. The larger privately-owned enterprises become the more difficulties they face, the more intense the desire for such partnerships. Therefore, partnerships with the public ownership economy become the inevitable solution to the inherent contractions of the private ownership economy. It operates like a law. Linking, permeating, and blending will become beneficial to the development of the private ownership economy.

After the private ownership economy fuses with other economic forms, assets will universally be owned by shareholders. The socialization of production is bound to produce the socialization of capital; and the capital of

both privately-owned enterprises and enterprises will become what Marx termed "social capital." In such an economic pattern, who will hold the leading position and perform the leading role? As was said above, the one who holds the absolutely dominant position will not necessarily "rule the roost"; instead whoever controls social capital will occupy the dominant position. In a microeconomic sense, the greater the centralization of capital in the economy under ownership of the whole people, the easier it is for such enterprises to hold a controlling number of shares in an enterprise. In a macroeconomic sense, the economy under ownership of the whole people will mostly dominate the basic industry sector while other economic forms will dominate the processing industry sector and tertiary industry sectors. Consequently, the economy under ownership of the whole people will control the lifeline of the national economy and all social capital.

During the past several years, the percentage of the national economy occupied by the state-owned economy and the individual entrepreneur and private ownership economies has changed substantially to the point where it is truly a matter for concern. In 1990, gross national industrial output value was 2.8924 trillion yuan, up 7.76 percent from the previous year. However, the increase was 2.96 percent for state-owned industry (including an only 1.5 percent increase for on-budget state-owned enterprises), 9.02 percent for collective industries (including 12.5 percent for township and town-operated industries), 21.11 percent for individual entrepreneur and privately-owned industries, and 39.33 percent for the three kinds of partially or wholly foreign-owned enterprises. The percentage of increase in total gross industrial output value for industries under ownership of the whole people was 76.0 percent in 1980, 64.9 percent in 1985, and only 54.6 percent in 1990, showing a 21.4 percentage decline over a 10 year period. The main reason for this state of affairs was not "small industries squeezing out large ones," the individual entrepreneur and private ownership economies pounding the state-owned economy, but the lack of vigor in the state-owned economy. The key to turning around this situation lies in decontrol that transforms the operating mechanism of state-owned enterprises, increases efficiency, and makes the most of their dominance in the overall economy rather than limiting the development of the individual enterprise and privately-owned economy for the sake of protecting the dominance of the nationally-owned economy. Therefore, looked at in long-range terms, once the multiple economic forms fuse into an integrated whole, their functions complementing each other, absolutely speaking, all economic forms can grow without limit through market competition, thereby promoting an extremely great abundance of social products overall and promoting an extremely great increase in the people's standard of living.

3. The existing several hundred thousand private entrepreneurs have become an important stratum in China's social structure.

The attitude and condition of this stratum has a direct bearing on whether the private ownership economy develops in a healthy fashion. Since they own a fairly large amount of private property and some of them hire surplus labor, these owners are accustomed to comparing their future prospects and fate to that of the national capitalists of the 1950's. They react extremely sensitively to changes in national policies and the political climate. Like the "feelers on a snail's head," they extend and retract as they move along slowly. The energy they expend in studying policy changes is greater than the energy they expend in administering and managing their enterprises. This is one of the direct causes for the skewed development of some privately-owned enterprises. Therefore, when drawing up and implementing policies for the private ownership economy, and in propagandizing public opinion, attention must be given to the maintenance of continuity, stability, and habitual practices. It is necessary to be particularly careful on policies having to do with parties concerned.

First, the owners of privately-owned enterprises are not to be compared simplistically or equated with the national capitalists of the 1950's. This is because (1) the social system and the economic structure in which they live is different. They are dependent on and limited by the socialist economy; they are an integral part of the socialist economic structure. The national capitalists, by comparison, lived during the period of transition from the new democracy to socialism; the position of the socialist system of ownership had not yet been established, and the issue of "who would triumph over whom" had not yet been finally decided. (2) Their make-up and the way in which they accumulated capital differ. The owners of privately-owned enterprises today are socialist workers (mostly administrators and managers of organizations in the rural collective economy, retired servicemen and young intellectuals in need of employment in cities and towns, staff members and workers in state-owned enterprises, and separated or retired persons) who used money accumulated through their own labor, snowballing it gradually to expand the size of their operations. The national capitalists came from the old society. (3) Their employer-employee relationships differ. In the present privately-owned enterprises, employees also have a portion of the means of production; it is just that the amount is small. Thus, they are surplus laborers that "have something but not much," rather than hired workers who have nothing at all. Their main goal in employment is not to raise a family and eke out a living, but to earn a little more income, learn a few skills, gain a little experience with life, and see the outside world. Consequently there is little compulsion and much free will between employer and employee. If an employee is dissatisfied, he or she can walk out. The opposite was true formerly. (4) Their future prospects and fate differ. The present owner of a privately-owned enterprise is a helper rather than an adversary in the development of social productivity; he is a force for rather than against the building of socialism. Therefore, he should be encouraged to operate

legally, to pay taxes according to law, to expand his business, to improve, to change from being the owner of a privately-owned enterprise to being a private enterprise entrepreneur, and to change further into a modern entrepreneur. By contrast, by exploiting and restricting them, the national capitalists gradually turned employees into workers using their own strength to eke out a living. Therefore, we say that the owners of privately-owned enterprises and the national capitalists may seem similar in appearance, but differ in essence. There is a qualitative difference between them; they cannot be equated with each other.

Second is the need for conscientious understanding and practice of a policy of "unity, assistance, education, and guidance," and a policy of putting an end to and eliminating "exploitation, restrictions, and transformation." In a socialist market economy, the owners of privately-owned enterprises, and the plant managers and directors of collective enterprises are the same in that they are both commodity producers and managers. Thus, politically they must be treated equally and without discrimination.

Finally is the need for better administration. Administrative organs must change their functions, setting up a nonpublic ownership economy management system suited to the market economy, and changing "multiple management" to coordinated management, each department concerned performing its own functions and fulfilling its own responsibilities to the full. As a matter of principle, burdens should be sensibly reduced, and the kinds and amounts of expenditures of various kinds centrally drafted. Economic, administrative, and legal methods should be used to improve management by providing services. Governments in some coastal prefectures have produced remarkable results in management of the individual entrepreneur and privately-owned economies, one of their experiences being as follows: "If you invest, I will welcome it; if you make money, I will tax returns; if you violate the law, I will investigate and punish you; and if you go bankrupt, you will have my sympathy."

People firmly believe that once the mental shackles have been broken, every jurisdiction will be able to create more and better methods to stimulate great strides in the healthy development of the individual entrepreneur and privately-owned economy.

#### **Survey on Private Enterprise Problems, Solutions**

*93CE0078B Beijing ZHONGGUO JINGJI TIZHI GAIGE [CHINA'S ECONOMIC STRUCTURE REFORM] in Chinese No 9, 23 Sep 92 pp 18-21*

[Article by Yuan Yue (5913 1471): "'Big Money' Difficulties and Remedies - a Survey Report of 11 Private Enterprise Owners About Conditions for Enterprise Development"]

[Text] Editor's Note: This survey was proposed and organized by the China Market Research Institute. The

CPC United Front Department's Industrial and Commercial Economy Bureau, the Individual Entrepreneur and Private Ownership Economy Department of the State Industrial and Commercial Bureau, the State Income Tax Department of the State Tax Administration, and the All-China Industrial and Commercial Joint Research Office provided guidance for this "Greatest Survey of Mainland China Privately-Owned Enterprises." This report is based on a survey of owners of 117 fairly large privately-owned enterprises in Guangdong, Hainan, Jiangsu, Zhejiang, and Hebei Provinces. It describes in detail the private enterprise operating environment in China today, and it provides a vivid picture of the rapid development of the private ownership economy during the past more than a decade that should be accepted in the seeking of truth in facts. It suggests a timely and sagacious readjustment of overall policy that is pertinent to the emancipation of productivity. The report is of definite value for an understanding of the frame of mind of owners of privately owned private enterprises at the present time, and for decision making by government agencies. [end editor's note]

After more than a decade of development, the private ownership economy has become an important force to be reckoned with in China's national economy. Close attention to how the private ownership economy's development, active study of problems in developing the private ownership economy, and the adoption of positive attendant policies appear extremely important. In April 1992, "The China Mainland's Largest Private Enterprise Survey" Task Force conducted a survey of fairly large private enterprises in five provinces including Guangdong and Hainan.

#### **Private Enterprise Managers' Evaluation of the Business Environment**

Enterprise managers universally felt that their hard work, ability, and daring stemmed from the policy of reform and opening to the outside world following the Third Plenary Session of the 11th Party Central Committee, which provided them an opportunity to discover, amplify, practice, and validate their own value. However, given the flourishing upsurge of the times, most of the sense of urgency about development stems from their sense of making historical accomplishments. Along the road of development, one difficulty after another remains.

**Credit Difficulties:** Some jurisdictions use the explicit provisions of documents from higher authority as a pretext for prohibiting loans to privately-owned enterprises; some jurisdictions require that only when a publicly-owned enterprise provides guarantees can a privately-owned enterprise obtain credit; and some jurisdictions provide only a small amount of credit even when a privately-owned enterprise provides mortgage guarantees.

**Prejudicial Public Opinion:** Since the broadcast media do not sufficiently publicize the positive aspects of

privately-owned enterprises, while at the same time simplistically equating unlicensed businesses and violations of law and discipline with the privately-owned economy, people suppose that development of private enterprise damages the publicly-owned economy, and they attribute some of the failures of publicly owned enterprises that could not compete to the existence and development of the private ownership economy. Consequently knowledge, understanding and support from people in all walks of life for private enterprise, including party and government organs, are insufficient. Some governments flatly prohibit the existence of the individual entrepreneur and private ownership economies.

**Unfair Taxation:** The main problems are an irrational tax structure, numerous and diverse taxes, overly high tax rates, excessively severe and inflexible before-tax restrictions, and a lack of tax preference for private enterprises. Some privately-owned enterprise suggested equal tax burdens, fair preferential tax treatment, simplification of the kinds of taxes, and adoption of a system of "low tax rates, strict control, and high penalties for infractions." Otherwise, under the prevailing tax system, enterprises are bound to violate the tax laws—the only difference being in degree.

**Poor Basic Conditions for Enterprises:** Prices of raw and processed materials, water, and electricity for privately-owned enterprises are higher than for publicly-owned enterprises. Requisition of land for construction is difficult; consequently usurious rates are charged for the leasing of plant buildings.

**Arbitrary Assessments:** The fees and compulsory contributions of privately-owned enterprises have become a serious burden. Those surveyed reported that fees in addition to taxes that jurisdictions charge privately-owned enterprises now number more than 30 different kinds, and as many as more than 50 different kinds in the highest charging jurisdictions.

**Difficulties Promoting the Sale of Products.** Since the tax authorities issue special receipts to privately-owned enterprises some publicly owned enterprise units as well as government agencies have specific regulations not permitting the purchase of private enterprise products. Such purchases may not be carried in account books. Some government agencies also have restrictive regulations on the entry of products from privately-owned enterprises into state-owned markets. As a result, privately-owned enterprises have no choice but to disguise their products under a "collective" label in order to evade the foregoing provisions.

**Difficulty Attracting Skilled People:** Since privately-owned enterprises have no household regulation control authority, and no file control and organizational relationship control authority, since national administrative policies regarding workers in privately-owned enterprises have not been completed, and since social security provisions for personnel in private enterprise are relatively poor while work is very intense, and the work risk

coefficient is high, in addition to which the authorities concerned have ruled that cadres who go to work in private enterprises do not retain their cadre designation, it is relatively difficult for private enterprise to attract skilled personnel.

**Difficulty Finding Legal Protection:** The legal system for privately-owned enterprises is extremely poorly developed. Privately-owned enterprises are still at a disadvantage in bringing law suits and receiving police protection for their property. The vagaries of policies toward privately-owned enterprises and the too close identity of the individual wills of leaders make for an uncertain legal position for privately-owned enterprises, and a deep-down feeling of apprehension about their survival has not been eliminated.

**Lack of Department in Charge:** Since privately-owned enterprises have no department responsible for them, they experience numerous difficulties in obtaining an evaluation of themselves, in getting a premium evaluation for their products, in obtaining production and operating licenses, in certifying the qualifications of their technical personnel, in the issuance of government approval to travel abroad, and in arranging the import and export of products. When an enterprise buys a motor vehicle, there is no place to go to obtain a certificate of business group purchase.

Some managers of privately-owned enterprises reported that it is extremely difficult for privately-owned enterprises to develop international business. A large number of agencies must sign off on imports and exports, and there are serious irregularities. The enterprises do not understand the amount of their products that the international market can take and foreign sale prices. Going abroad on surveys and obtaining foreign investment are difficult. Costs are high, and running a Sino-foreign joint venture or cooperative venture is difficult. Some areas place severe restrictions on privately-owned enterprises participation in the three forms of import processing and compensation trade. At the present times, such Sino-foreign joint ventures and cooperative ventures involving privately-owned enterprises as do exist have come about mostly through link-ups with a collective, approval obtained after the fact.

#### **Policy Readjustment Imperative**

National policy organs must realistically accept the more than a decade of reform and opening to the outside world, and the living reality of the development of the private ownership economy. They must sensibly adjust overall policies that accord with the emancipation of productivity. Readjustment of policies toward the private ownership economy must include not only a readjustment of policies toward the several hundred thousand owners of privately owned enterprises, but a readjustment of policies toward the millions of staff members and workers in privately-owned enterprises as well as all aspects of society that benefit from the development of the private ownership economy.

### 1. Make Privately-Owned Enterprises Basically Equal With Other Business Entities

Reform should accomplish the following: straighten out the correlation between ownership policy and industrial policy, gradually making the returns that an enterprise make rather than the character of the enterprise the yardstick for judgment, ensuring that the operating conditions and the operating environment for enterprises of a different economic nature are generally equal. Over the long term, the state should draw up policies and development plans of a guidance nature for different trades as needs require as a means of enhancing the uniform management of different trades and improving industrial policy, instituting needed tilt policies toward different trades. However, tilt polices should not be instituted for different trades on the basis of their ownership status. With the further commercialization of resources, the practice of using administrative fiat to allocate land, credit, water and electricity, and raw and processed materials in a discriminatory fashion among different components of the economy must be overcome, particularly when this practice rather clearly goes against the direction of allocation by the market. Equal competition among different components of the economy must be encouraged. "Good things are bound to come out of competition."

The economy develops according to its own inherent laws; obstructing the natural flow of key economic elements is bound to lead to a distortion of economic development. The discriminatory policies long inflicted on the private ownership economy will lead to private enterprises trying to feign state ownership, collective ownership or foreign capitalization, which will become an important element in making a turn around difficult. The self-interest mechanism is the most sensitive mechanism of all mechanisms. "Where you have a stratagem for boxing me in, I have a stratagem for jumping over the wall." Since major "policy difference" exist for different sections of the economy, inevitably those who are driven by a quest for profit will attempt to benefit from these "policy price differences."

Actually, the survey results show that the privately-owned business enterprises that grew fastest were those that had either been or still were "red tag" enterprises. Such enterprises not only enjoyed the preferences that only the public ownership part of the economy enjoyed, but they also used the mechanism that only the non-public ownership economy used. This phenomenon provided us with an important insight as follows: If the existing nonpublicly owned enterprises can avail themselves of operating conditions equal to those of publicly-owned enterprises, turning privileged competitiveness into real competitiveness, then the "feigned state ownership, feigned collective ownership, feigned foreign capitalization, feigned operation of schools, and feigned welfare purposes" phenomenon can be naturally eliminated. The private ownership economy will be able to make another major advance.

### 2. Improvement of the Quality of Business Entities

The private ownership economy must also work hard to improve itself. The survey showed that nearly 31 percent of the managers of privately-owned enterprises (including enterprises that had succeeded in separating ownership rights from administration and management) realized that further development of privately-owned enterprises required additional improvement of the management system, the attraction of skilled talent, the training of staff and workers, further improvement of the concern's image, and increase in the concern's prestige. The need for privately-owned enterprises to change the quality of their management also is for the purpose of being able to deal with the powerful competitors they will face following further reforms. In other words, the patent has expired, or soon will expire, on the management methods that many privately-owned enterprises use. Once the "policy differences" and the "mechanism advantage" have been largely eliminated, development of the private ownership economy will face unprecedented challenges. If the private ownership economy's policy disadvantages cannot be eliminated, the private ownership economy may find itself on a slippery slope.

### 3. Courageous Reform While Boldly Opening to the Outside World

If the attraction of private foreign capital is deemed to be largely a matter for widening the opening to the outside world, then stimulating the development of the indigenous private ownership economy is a matter for the intensification of reform. In overall terms, the country's policy position with regard to the foreign private ownership economy and the indigenous private ownership economy are at extremely opposite poles, and sharp contractions between them have developed in many regards. For example, some jurisdictions permit private foreign capital to race ahead and occupy the most favorable commercial sites while not paying the slightest compensation to privately-owned enterprises that are razed in the ensuing urban area transformation. Giving a free hand to development of the foreign private ownership economy while restricting the domestic private ownership economy is an out-and-out policy perversion. If sacrifice of the development of the domestic private ownership economy is the price to be paid for providing space for development of the foreign private ownership economy that might easily lead to confusion in the public mind. Even if it not possible to accord equal treatment to privately-owned Chinese enterprises and foreign private capital at the present time, at least certain limitations on development of the private ownership economy should be eliminated.

In promoting a policy of further reform and opening to the outside world for the private ownership economy, efforts must be made to support the internationalization of business. At the present time a substantial number of privately-owned enterprises produce on a considerable scale and have a considerable production capacity. They have their own mature and standardized products and

certain distinctive technological skills. Since their raw materials and manpower costs are comparatively rather low, the enterprise's returns from management are fairly high. Many of their products can compete extremely well internationally on both technical level and price. Therefore, pilot projects should be set up as quickly as possible in which privately-owned enterprises have the right to engage in foreign trade directly; requirements and procedures for privately-owned enterprises to operate Sino-foreign joint ventures and cooperative ventures should be simplified; requirements for travel abroad on privately-owned enterprise business should be eased; and privately-owned enterprises should be encouraged to engage in the three forms of import processing and compensation trade. All these matters should be placed on the daily agenda of the departments that administer foreign trade.

#### 4. Updating of Ideas To Advance Healthy Development of the Private Ownership Economy

In the development of privately-owned enterprises, a clash with certain rigid ideas that have taken shape during the past several decades is unavoidable. Every level-headed historical materialist must realize that at a specific historical stage when people's ideological understanding is still not such as to permit the use of moral methods to distribute social wealth fairly, the relative concentration of social wealth in some individuals and enterprises that the competition mechanism causes is the indispensable price that must be paid to ensure highly efficient operation of the society and economy.

Approval of the easing of limitations on the private ownership economy and full-encouragement to the healthy development of the private ownership economy are based on the following important hypothesis for which there is no lack of substantiation: Individual desire for material goods is limited. Once this desire is fully satisfied, given appropriate guidance and control, private persons ownership and use of social wealth may become another special form of more efficient socialized production.

Since current restrictions on privately-owned enterprises are too severe, not only have numerous enterprises feigning collective ownership, state ownership, and foreign capitalization appeared, but in addition, although a fairly large number of enterprises meet the legal requirements, they still do not want to change from individual entrepreneur to private ownership status. Comparison shows that once a privately-owned enterprise gets to be a certain size, because of his substantial investment, pressures on the enterprise owner are great. Consequently, he is very attentive to the enterprise's reputation, survival environment, and long-term development strategy. Encouraging and spurring the individual entrepreneur economy to operate on a scale where they can realize economies both helps the high speed growth of social productivity and can cause a very great part of the private ownership economy whose character and assets

are concealed to recover properly their original appearance. It can also help the state exercise open, effective, and standardized economic regulation and control.

Since the private ownership economy's investment produces social productivity, it very much needs a stable social and political environment. The owners of private enterprises closely watch policy movements and are concerned about changes in the current political situation. They hope that both they and their enterprise can be regarded as a mechanism in being and obtain space for development. If the party and government in power is not adept at forging emotional, ideological, and organizational ties with so vibrant a group as this, a powerful antithesis to the existing system may become artificially established. In the market economy system, close attention must be given to readjustment of the social position of the wealth-holding and managerial stratum.

## TRANSPORTATION

### Gansu To Establish Air Route to Hong Kong

OW2111152592 Beijing XINHUA in English 1504 GMT  
21 Nov 92

[Text] Lanzhou, November 21 (XINHUA)—Lanzhou city, capital of Gansu Province and a major industrial center in northwest China, recently was approved by the State Council to establish an aviation port.

On November 24, it will open a direct tourism chartered airline to Hong Kong, which will be managed by the Gansu Overseas Traveling Chartered-Plane Company.

Timetable of the air route will be set as one return-flight every Tuesday and Friday, with the British-made BA-146 planes operating the route.

As a major hub of communications, Lanzhou has many transport and communication lines linking up with other cities in northwest China and some places of historic and tourism interest on the ancient Silk Road.

The opening of this Lanzhou-Hong Kong air route will benefit overseas visitors in conducting sightseeing and commercial and trade activities in northwest China's inland regions.

Officials from the provincial Port Administration Office said that next year Lanzhou will open another air route to Alma-Ata, capital of the republic of Kazakhstan.

Moreover, the Lanzhou aviation port plans to help inland residents to travel to Hong Kong and Southeast Asian countries and regions.

In the meantime, the local government is preparing to invest a large sum of money to expand the Lanzhou airport to meet international airport standards.

**Railway Coordination Meeting Held in Shijiazhuang**

*SK2611001892 Shijiazhuang Hebei People's Radio Network in Mandarin 2300 GMT 24 Nov 92*

[Text] Beijing and Tianjin Municipalities and Hebei and Shanxi Provinces and the Beijing Railway Bureau cosponsored a meeting in Shijiazhuang on 24 November on transportation coordination between the railway departments and enterprises.

Vice Governor Song Shuhua, attended and addressed the meeting. Some of our province's major enterprises attended the meeting.

According to a briefing given by the Beijing Railway Bureau, at present the transportation plans reported by enterprises in areas under this bureau's jurisdiction and the actual transportation capacity is about 60 percent. The strained transportation capacity has seriously restricted economic development in these four provinces and municipalities.

Through the exchange of experiences, the meeting will study measures for accelerating railway transport and raising transport efficiency.

**AGRICULTURE****Liu Zhongyi on State of Rural Economy**

*93CE0097D Beijing NONGMIN RIBAO in Chinese 29 Sep 92 p 1*

[Article by Zhang Dexiu (1728 1795 0208) and Li Yongsheng (2621 3057 3932): "Strong Rural Economic Growth Reported for the Year"]

[Text] On 28 September the delighted Minister of Agriculture Liu Zhongyi reported to the press China's rural economic situation this year: accelerated growth and all-round vitalization. A bumper harvest is expected; a growth momentum continues in the animal husbandry and the aquatic products industries; the output value, sales earnings, and profits of township enterprises have simultaneously been climbing; the rural economic structure and mix of agricultural activities have been further optimized; agriculture has become more export oriented; and profits are also up.

Minister Liu Zhongyi said, "We have spent the year thoroughly implementing the 'decision' of the Eighth Plenary Session of the 13th CPC Central Committee on agricultural production and rural work. Inspired by the spirit of the important speech delivered by Deng Xiaoping as he inspected the south, we have accelerated rural economic reform and overcome several major natural disasters, as well as other negatives—such as falling prices and continuing difficulties in buying and selling the major agricultural products. Therefore, with accelerated rural economic growth and all-round revitalization, the rural economy is looking good."

Reports suggest that despite all sorts of natural disasters, including drought, low temperatures, plant diseases, and insect pests, we can still look forward to a bumper harvest this year, and to meeting projections in the national plan for both grain and cotton while nearing the target for oil crops. As for cash crops that have been deregulated, such as flue-cured tobacco, silkworm, vegetables, and fruits, the development momentum is strong. This is particularly true in the case of vegetables: production is up, there are now more varieties, both buying and selling are brisk, and profits have been high. Both the animal husbandry and the aquatic products industries have grown rapidly. In animal husbandry, we maintained an upward trend going back 14 years. Total pork output is projected to reach 32.50 million tons, and poultry and eggs output is projected to reach 10.10 million tons, exceeding last year's output by over 1 million tons in each case. Total dairy product output and wool output are expected to hit 5.6 million tons and 247,000 tons respectively, both representing a big jump over last year's figures. In the aquatic products industry, projections put this year's total output at 14.6 million tons, up 8 percent over last year. This makes 1992 the seventh year in a row in which the industry's output increased by over 1 million tons over the preceding year. In pork, egg, aquatic products output, China is clearly ahead of other major producers and easily ranks first in the world. Township enterprises have accelerated their growth, with good economic results. Statistics show that they completed 760 billion yuan in output value from January through August, up 43 percent over the same period last year. Their sales earnings, tax payments, and profits rose simultaneously in the first half of the year, up 34.7 percent, 30.1 percent, and 30.6 percent respectively over the same period last year. For the year as a whole, the gross output value of township enterprises is expected to top 1.4 trillion yuan, a gain of 30 percent or so over the year before.

Faced with market competition that gets keener by the day, agricultural departments have energetically but carefully guided the rationalization of the industrial structure and product mix, preserving overall rural economic stability. Nationwide, this year 24 million mu were withdrawn from grain cultivation as local realities warranted, while the acreage planted with cash crops rose by 11 million mu. The areas sown to long-grain nonglutinous rice, which is relatively low-grade and has a weak market demand, shrank by 10 million mu, while more acres were planted with soybean and high-grade rice. Significant growth was recorded for a host of high-quality livestock products and aquatic products. In the wake of economic diversification and the development of township enterprises, the employment structure in rural areas has changed. For the first time, the number of people employed by township enterprises is expected to exceed 100 million this year, 5 million more than last year.

Since the beginning of the year, the rural economy has also become more export oriented more quickly. Agricultural exports soared, as did foreign exchange earnings.

According to statistics, export deliveries by township enterprises jumped 58.8 percent in the January-June period compared to the same period last year, and exceeded the growth in output value by 21 percent. Between January and May, aquatic products exports reached \$546 million, up 54.6 percent over the same period the year before. Handsome gains were also reported in exports of crop and animal husbandry products, as well as of their processed products.

Meanwhile there has been a widespread increase in ordinary peasants' enthusiasm for studying and applying science. The application, popularization, and dissemination of all sorts of new technology and new achievements has quickened. The establishment of a socialized agricultural service system has gotten underway across the nation. As agriculture became more and more market-oriented, the adjustment of the rural economic structure gathered steam, and the development of agricultural products that are both sought after on the market and that generate a high return has accelerated, and the rural economy as a whole has become more prosperous. This in turn has boosted peasants' earnings, ending the lull in their income growth.

Minister Liu Zhongyi pointed out that today Chinese agriculture still faces a number of problems and difficulties: peasants' continuing difficulties in selling their major agricultural crops, lopsided exchange relations between industrial and agricultural products, the under-pricing of agricultural products, the rising prices of agricultural capital goods, insufficient investment in agriculture, and the heavy burden on peasants. To solve these problems, we need to continue to deepen reform, deregulate and revitalize the rural economy, and spur its all-round development. We need to adopt comprehensive policies and measures to support and assist peasants as they try to enter the marketplace, ensure that agriculture and peasants are able to compete on a level playing field in commodity exchange, and protect the peasants' legitimate rights and interests. Also, the state needs to give agriculture and the rural economy further fiscal and financial support. Finally, Minister Liu Zhongyi emphasized that, since the beginning of the year, some areas have stressed industry and slighted agriculture, putting the city ahead of the countryside to various extents; this is a tendency that leaders at all levels should take note of. As the pace of reform quickens daily, we must continue to abide by the principle of emphasizing the city and the countryside equally, and continue to adhere to the goal of developing industry and agriculture in a balanced way. We must pay more attention and give more support to developing agricultural production and the rural economy, improving our leadership of rural work, and ensuring the healthy development of the rural economy. In the last quarter of this year, we must concentrate on these tasks: coming to grips with field management for fall, establishing a socialized agricultural service system, launching and accelerating the development of township enterprises in western and central China, getting things done right this fall and winter, and making plans for agricultural production next year.

### Analysis of Burdens Borne by Peasants

93CE0032A Beijing ZHONGGUO NONGCUN JINGJI [CHINA'S RURAL ECONOMY] in Chinese No 8, 20 Aug 92 pp 47-51

[Article by Li Qin (2621 5367), Office of Rural Economic Cooperation and Guidance, Ministry of Agriculture]

[Text] China is a great agrarian nation. The burdens borne by the nation's peasants constitute not only an economic problem, but a political one as well. Not only does the load borne by the peasants affect active development of their productivity and improvement in their livelihood, it also affects the stability of the agrarian society.

#### I. Extent of Peasant Burdens

The load borne by the peasants reflects the benefit-distribution relationship between the peasants and the state and collective. At the present stage, the actual manifestation of the peasants' load takes on the following forms: taxes rendered to the state; the hidden burden borne in the scissors differential between prices for industrial and agricultural products; the burden of society-wide fund collections and apportionments and control-type fees and penalties; the burden of proposals and overall plans and labor obligations for which they are accountable to economic units within their rural collectives; and other disguised forms of burden.

#### 1. Taxes Paid by Peasants

A look at the tax load borne by agriculture in China shows that the state practices a light taxation policy. Since issuing "Tax Regulations for Agriculture in the PRC" in 1958, actual agricultural production has continued to rise, and the actual agriculture tax rate for the peasants has continued to drop yearly. During the time of the Second Five-Year Plan and the Third Five-Year Plan, the tax rate was 11 percent; for the Fourth Five-Year Plan, 6 percent; the Fifth Five-Year Plan, 5 percent; and for the Seventh Five-Year Plan, not even 4 percent. However, these figures cannot completely reflect the peasants' actual status, nor can we assume from these figures that the taxes paid by the peasants tend to come down.

According to statistics compiled by the Ministry of Agriculture's Office of Rural Economic Cooperation and Guidance, in just 1991 alone, taxes paid by the rural sector totalled 43.47 billion yuan, 21.9 percent of which was the agriculture tax, the remaining coming from class II and class III rural industries. The tax for each peasant per capita was 49.4 yuan, more than twice that for 1986. Taxes rendered by peasants to the state from 1986 to 1991 are shown in Table 1.

**Table 1. Taxes Paid by the Rural Sector From 1986-1991**

Year	1986	1987	1988	1989	1990	1991
Tax Total (100 million yuan)	199.38	238.90	307.64	364.21	379.08	434.72
Portion of Agricultural Tax (100 million yuan)	44.52	51.81	73.69	84.94	87.86	95.23
Peasant Per Capita Tax (yuan)	23.8	28.4	36.1	42.2	43.4	49.4
Percent of Per Capita Income for Previous Year	7.02	7.49	8.53	8.72	8.31	8.81

From Table 1 we can see that the total taxes rendered by the rural sector show a gradual increase averaging 16.9 percent annually. The proportion of taxes paid per capita out of the previous year's per capita income rose from 7.02 percent in 1986 to 8.81 percent in 1991, an increase of 1.79 percentage points in five years. We can see from this that the peasants' tax burden is increasing yearly.

## 2. Burden of Scissors Differential in Prices Between Industrial and Agricultural Products

The scissors differential between prices for industrial and agricultural products is reflected in the unequal price/exchange relationship between industrial and agricultural products. This is a kind of redistribution formula that indicates national income by taking part of the national income derived from the agricultural sector and transferring it to various industrial areas. According to estimates, during the 1950's and 1960's after the founding of the state, the absolute value of the scissors differential in prices between industrial and agricultural products is generally found around 10 billion or 20 billion yuan. By the latter part of the 1970's, this figure

had gone up to around 40 billion yuan annually. In the early 1980's, because the state raised the purchase price for some secondary agricultural products substantially, the scissors differential between the prices for industrial and agricultural products gradually came down. However, once into the Seventh Five-Year Plan, this differential began to grow again, gaining rapidly in recent years. According to specialists at the State Statistical Bureau, the scissors differential between industrial and agricultural products since 1989 has continued to increase for three years in succession, for a cumulative increase of 16.5 percent, and a 5.1 percent increase in 1991 over the previous year.

We use a standard labor ratio for industry and agriculture (industrial labor:agricultural labor = 1:2.2) to apportion their net product value in order to obtain a method that calculates the spread of price deviation in industrial and agricultural products. In this manner, we calculated the spread of price deviation in industrial and agricultural products and changes in the absolute value of their exchange scissors differential during the 14-year period from 1978 to 1991 (see Table 2).

**Table 2. Calculation of Exchange Scissors Differentials for Industrial and Agricultural Products From 1978-1991**

Year	Spread Between Cheaper Agricultural Product Prices and Value (%)	Spread Between Higher Industrial Product Prices and Value (%)	Absolute Value of Scissors Differential (100 million yuan)	Average Obligation Per Peasant (yuan)
1978	33.15	19.58	409.5	50.5
1979	29.12	17.51	439.9	54.1
1980	28.12	17.09	503.1	61.4
1981	24.33	14.93	479.1	58.0
1982	22.08	13.77	486	58.1
1983	21.30	12.85	532.6	63.3
1984	19.86	11.68	566	67.6
1985	22.76	12.33	771.3	92.4
1986	22.10	11.32	855	100.8
1987	22.35	10.80	1008.4	117.4
1988	23.00	10.64	1301.6	150.1
1989	25.12	11.06	1590.8	181.1
1990	21.90	9.87	1450.7	169.5
1991	26.16	11.18	1965.5	217.1

From Table 2, we can see that before 1985, even with a continuous increase in the absolute scissors differential between prices for industrial and agricultural products, the spread in price deviation for individual products alone

showed a yearly decrease. It was only after 1985 that a reversal took place. The price deviation for agricultural products and the absolute scissors differential (except for individual years) basically showed a tendency to increase

with each succeeding year. Comparison of data for 1984 and 1991 shows that the spread between agricultural product prices and their value, where prices were lower, went from a low of 19.86 percent to a high of 26.16 percent, a spread of 6.3 percentage points. The absolute value of this scissors differential in 1985 went over 70 billion yuan. Its annual increase between 10 billion and 20 billion yuan after this brought this figure up to almost 200 billion yuan in 1991. From 1979 to 1985, the absolute value of the scissors differential increased at an annual rate of 9.5 percent. From 1986 to 1991, the absolute value of the scissors differential increased at the rate of 16.9 percent, up by an additional 7.4 percentage points. For peasants, the burden of the scissors differential per capita increased in 1985 by 42 yuan over the 1978 figure, while that for 1991 increased by 125 yuan over that for 1985. The peasants' burden of the scissors differential per capita for 1991 reached 217 yuan.

### 3. Burden of Society-wide Collections and Apportionments, and Management Type Fees and Penalties

In recent years, numerous kinds of fund collections and apportionments have abounded, adding greatly to peasant burdens. This burden is the one the peasants are most unhappy with. According to rough estimates made by the

Office of Rural Economic Cooperation and Guidance on a national scale, the various administrative fees that peasants do not wish to make payments on in 1991 add up to 1.77 billion yuan. Reluctant payment for various penalties add up to 2.31 billion yuan, for society-wide fund collections and apportionments, 4.1 billion yuan; and for other social responsibilities, 3.81 billion yuan. The burden per capita, of the items described add up to 13.8 yuan, which is 2.5 percent of per capita peasant income for the previous year. Because it is statistically difficult to describe social burdens, we can only cover part of this topic.

### 4. Burden Imposed by Collective Withdrawals and Labor Obligations

In recent years, the inside benefit-distribution relationships within economic organizations in the rural sector have become more complex, and the amount of collective proposals and overall plans, and labor obligations has continued to increase, frequently exceeding set quotas. According to statistics available at the Ministry of Agriculture, the burden of collective proposals, overall plans and labor obligations borne by the peasants is set forth briefly in Tables 3 and 4.

**Table 3. Burden of Collective Proposals and Overall Plans Borne by the Peasant Population 1985-1991 Unit:yuan**

Year	1985	1986	1987	1988	1989	1990	1991
Per Capita Burden of Collective Withdrawals (yuan)	20.50	22.83	25.62	28.86	33.84	41.15	44.55
Proportion of Per Capita Income for Previous Year (%)	6.71	6.73	6.76	6.82	6.99	7.88	7.94

**Table 4. Direct Burden of Collective Withdrawals Borne by Peasant Households 1987-1991**

Year	1987	1988	1989	1990	1991
Direct Burden Per Peasant (yuan)	15.3	18.1	20.8	26.1	29.2
Proportion of Per Capita Income for Previous Year (%)	4.00	4.29	4.30	5.00	5.20

Note: Direct burdens borne by peasant households refer to withdrawals submitted to the collective by operating households.

From Tables 3 and 4, we can see that the burden borne by peasants in recent years for collective withdrawals has become increasingly heavy. The sum extracted per capita had more than doubled, from 20.5 yuan in 1983 to 44.55 yuan in 1991, at an annual increase of 13.8 percent. Of this, the direct load of 15.3 yuan borne by peasant households in 1987 was increased to 29.2 yuan in 1991, at an annual increase of 17.5 percent, which was even faster.

Because a continuous stream of statistics on the labor work load borne by the peasants is lacking, it is not possible to make a detailed analysis of this aspect of the burden. It is only from overall statistics available for 1990 and 1991 that a rapidly growing phenomenon is noticed. In 1990, the volunteer labor provided by peasants and their accumulated labor throughout the nation

totalled 7.06 billion labor units, with the labor force of each village assuming 17.2 units. Of this total, financial remuneration substituted for 943 million labor units of volunteer and cumulative labor worth 2.9 billion yuan. In 1991, the rural sector provided 8.6 billion units of volunteer and cumulative labor, an increase of 21.8 percent over the previous year, with each labor force assuming 20.2 labor units, an increase of three labor units over that for the previous year. Here financial remuneration of 37.47 yuan [as published] substituted for 1.077 billion work days, an increase of 29.2 percent over the previous year.

Taking the 1991 data as an example, if each worker providing volunteer or cumulative labor is worth four yuan, then the value of this labor provided by the peasants each year would add up to 34.4 billion yuan

annually, a burden to peasants of 39 yuan per capita, which would be 6.95 percent of the per capita peasant income for the previous year.

## II. Characteristics of Increased Burdens Assumed by Peasants in Recent Years

Through the analysis just described, we can see that changes in the burdens borne by peasants in recent years show the following characteristics:

Growth in burdens borne by peasants is not in step with development in the rural economy and growth in peasant income, the growth in burdens noticeably faster than that for income. According to statistics from the Ministry of Agriculture, the net income in the rural economy during the six-year period from 1985 to 1991 grew 11.9 percent annually, the per capita peasant income grew 10 percent annually, but taxes levied on the rural sector grew 16.9 percent annually. Absolute values of the scissors differential for industrial and agricultural products increased at an annual rate of 14.5 percent, and the collective burden of the peasants grew at an annual rate of 15 percent, of which direct burdens and responsibilities borne by middle class peasant households (in a four-year period) grew at an annual rate of 17.5 percent, while various other social responsibilities experienced a doubling growth.

The growth in the burdens borne by peasants has already exceeded their ability to bear them. During 1991 and the five years preceding it, changes in the various burdens as a proportion of per capita peasant income for the previous year are noted as follows: per capita taxes paid by peasants as a proportion of per capita peasant income for the previous year grew from 7.02 percent for 1986 to 8.81 percent for 1991. The absolute value of the scissors differential borne by the peasants per capita as a proportion of per capita income for the previous year grew from 29.7 percent in 1986 to 38.7 percent; and the collective burden per capita grew from 6.73 percent in 1986 to 7.94 percent. The social burdens that can be counted statistically in 1991 averaged 13.8 yuan per capita, 2.5 percent of the per capita peasant income for the previous year. In this manner, various peasant burdens in 1991 added up to 64.9 percent of the per capita peasant income for the previous year, an increase of about 6.4 percentage points over the figure for 1990. How can the peasant population carry such a heavy burden? The fact that peasant income in recent years has shown slower growth is closely related to this situation.

As burdens borne by the peasants become more multifaceted, the sums involved become increasingly greater as more items are added. In the present situation where the financial system is in charge and responsible for everything, various agencies are busy transferring burdens onto the peasants. For example, peasants are expected to pay fees for roads and communications, postal service and broadcasting, medical care and public health, culture and education, social insurance, public safety, land management, family planning etc. According

to studies made by town and rural survey teams in Jilin Province, the provincial government had designated 26 items for collection of fees in the rural sector, but agents at the grassroots level had actually collected fees for 49 items, of which 23 items were in excess of the original designation, and 19 were forced on the peasants. Also, figures provided by peasant Su Hui [1776 6540] of Yongjiu village in Changling county of the same province indicated that before 1986, his family always had about 200 yuan deducted each year, but this figure climbed to 400 yuan in 1989, 539 yuan in 1990, and to 750 yuan in 1991. A survey by the Pingyuan County Bureau of Statistics in Shandong Province showed that elementary school students in the county required 265 yuan for expenses to cover miscellaneous fees, fees for water and electricity, fees for heating, and assuming various apportionments made to the school. An example was asking individual students to pay one yuan each to help the school purchase a national flag.

## III. Consequences of a Continuous Load Added to Peasant Burdens

The rapid growth of burdens shouldered by peasants is a direct reflection of various contradictions that actually derived from the rural sector and result from the peasants being placed in an unfavorable situation during a time the national economy is making structural adjustments. Such conditions have already produced some side effects on the rural economy's development, and even that of the national economy.

Direct effect of a continuous load on the growth of peasant income, leading to a drop in the peasants' standard of living and a greater weakening of their regenerative capacity. According to data from the State Statistical Bureau, from 1980 to 1991, the net peasant income per capita grew at an annual rate of 12.3 percent, and after allowing for the effect of pricing factors, it arrived at a final rate of 7.44 percent. Analyzed by stages, the data showed that the years when peasant income had rapid growth all occurred before 1985. Between 1980 and 1984, the net peasant income per capita, after deductions for commodity price factors, showed an annual growth of 15.1 percent. Between 1985 and 1988, growth in peasant income had slowed, though growth was still maintained around 5 percent annually after deduction for price factors. In the last three years, peasant income stagnated, with individual years showing negative growth. From 1989 to 1991, the net peasant income per capita, after deductions for price factors, showed an increase of about 1 percent annually, though the growth for 1989 was still 1.6 percent lower than that for 1988.

When this data is combined with that provided earlier, this time frame shows the greatest growth in peasant burdens. The reason for this is due largely to gradual implementation of the state's reform policy. While suppressing inflation, it releases numerous costs that get passed on to the peasants (during inflation the price of industrial goods rises faster than agricultural products,

stays high and not come down; but when the market is soft, the price of agricultural products drops more severely than that of industrial goods, stays low and not go up), adding to their burdens. Because of limits in the data available, it is difficult for us to calculate the extent that increasing peasant burdens affect growth in peasant income. On the basis of 1989 figures that show a drop in actual income, if the deviation value of agricultural product prices is maintained at the 1984 level, the net peasant income per capita can be increased on the present basis, by more than 30 yuan, converting the actual drop to actual growth.

Because of the increasing load of the peasants' burdens, their income growth has been slowed to the extent that their standard of living and consumer expenditures have fallen off in a way that aggravates the weakening of their regenerative capacity. According to data from the State Statistical Bureau, the peasants' standard of living and their consumer expenditures for 1989 and 1991, when compared with that for 1988, shows a drop of 1.3 percent and 1.2 percent respectively. Per capita peasant expenditures in 1990 to purchase fixed assets for production purposes show a drop of 19.3 percent over 1988 figures.

**Widening the differences between the urban and rural sectors.** According to calculations, the difference between incomes for urban and rural residents after rural reforms dropped from a ratio of 1:2.36 (town:village) in 1987 to a ratio of 1:1.74 in 1984. During the seven-year period after 1985, the difference between incomes for town and rural residents increased gradually; by 1991, it had grown to 1:2.3. In particular, the obvious rate at which the spread of this differential has been growing in recent years shows that in 1990, after deducting for price factors, the subsistence income for urban residents per capita increased 8.6 percent over that for the last year, while the net peasant income per capita increased only 1.8 percent. In 1991, after deducting for price factors, the income for urban residents grew 7.7 percent, that for peasants, 2 percent. A look at the rate of income growth for both groups shows that net peasant income during this two-year period grew slower than that for urban residents by 12.1 percentage points. If their income is noted from the angle of absolute amounts, where the differential is more noticeable because the income base numbers for urban and rural residents are different, the value for an absolute growth of 1 percentage point is not the same. In 1991, the value for an absolute growth of 1 percentage point in the subsistence income for urban residents was 13.9 yuan, while this value in net peasant income was only 6.3 yuan. In 1985, the subsistence income for urban residents was greater than net peasant income by 289 yuan, but by 1991, this difference had grown to 886 yuan, three times over the 1985 figure.

**Restricting a healthy circulation of capital and goods within the national economy.** China has a rural population of 900 million which makes up more than 80 percent of the national population. As the rural population is the chief supplier of industrial raw materials, it is also the greatest market for industrial goods. When the

load of burdens borne by the peasants are increased and their income growth has slowed instead, their valid needs will not be met and the rural market will shrink. This will have a restrictive effect on a healthy circulation of goods and capital within the national economy. According to data from the State Statistical Bureau, the value of retail goods sold on the rural market in 1990 was 200 million yuan less than that sold in 1989. Of increases in all categories of retail goods sold in 1991, only 29 percent came from the rural sector.

Precipitating numerous social contradictions. To fulfill their tasks of collecting funds and fees for various proposals, overall plans, and apportionments, cadres at the rural grassroots level will expend considerable energy to follow through on their collections. Sometimes, they might use inappropriate methods, and even force, to coerce peasants into paying. Not only does this affect cadres in the performance of their regular duties, what is more important is the creation of a confrontational relationship between cadres and the people, which destroys the party's image among the peasant masses. At the same time, because financial management on the rural level at present lacks an effective supervisory mechanism, the task of collecting fees and penalties for so many items will provide opportunities for a greedy few to engage in graft, bribery, and other irregularities. This, in turn, affects social stability.

To lighten the load of the burdens borne by the peasants, the Central Committee of the CPC and the State Council have issued several documents on the subject. Last year it issued "Regulations on Peasant Fees and Labor Management." But the burdens borne by the peasants have never really been reduced, and the reasons for this are worthy of further consideration.

**State Council Circular on Management of Contracts**  
93CE0071A Beijing JINGJI RIBAO in Chinese  
11 Oct 92 p 2

[Report: "State Council's Circular on Strengthening Management of Agricultural Contracts"]

[Text] The State Council recently circulated the Ministry of Agriculture's recommendations on strengthening the management of agricultural contracts and issued a circular to the whole country, pointing out: The implementation of the responsibility system, mainly the contract system based on the household with remuneration linked to output, is a basic policy of the party for rural areas. The system should remain stable for a long time to come and be improved constantly with the development of productive forces. All places should bring the work to stabilize and improve the system of contracted responsibilities on the household basis with remuneration linked to output into line with the legal system and work conscientiously to make it a success.

The Ministry of Agriculture, in its "Recommendations on Strengthening the Management of Agricultural Contracts" to the State Council, stated: The Eighth Plenary Session of the 13th CPC Central Committee once again affirmed that the system of contracted responsibilities on the household basis with remuneration linked to output for the rural areas will remain unchanged for a long time to come. To insure that the responsibility system will remain stable for a long time to come and improve constantly, we must bring it into line with the legal system and manage the rural contracts according to law. This is an important guarantee for the stabilization and improvement of the contract system based on the household with remuneration linked to output.

As of now, more than 300 million rural contracts have been signed in China. In the past few years, the people's governments at all levels and their agricultural departments have always regarded the management of the agricultural contracts as a basic task for consolidating the achievements of rural reform and safeguarding rural stability and unity and have done a great deal of thoroughgoing and painstaking work. In the meantime, most provinces (regions and cities) have strengthened laws and regulations in light of the actual local conditions and according to the special nature of agricultural contracts. Twenty four provinces (regions and cities) have promulgated regulations or procedures governing agricultural (rural) contracts, thus bringing the management of agricultural contracts into line with the legal system. According to statistics, the fulfillment rate of agricultural contracts rose from 43.3 percent in 1986 to 77.1 percent in 1990; the redemption rate rose from 77 percent to 91.2 percent; and the dispute rate dropped from 6.4 percent to 3.2 percent.

At the same time, we should also see that the management of agricultural contracts is still far from meeting the requirements of rural reform and development. In the vast rural areas, because of questions of understanding or economic interests, there are often failures to consciously uphold contracts, failures to fulfil contracts, and even encroachments on the peasants' right to make their own decisions and on their lawful interests. Because of population growth and movements, and constantly changing market, price, and other factors, the tasks of changing and termination of contracts and mediation in contract disputes are quite arduous. Under these circumstances, it is very necessary to strengthen the legal system for the management of agricultural contracts.

For this reason, the Ministry of Agriculture recommends the following:

1. The people's governments at all levels should pay serious attention to the task of strengthening the management of agricultural contracts according to law by raising it to the high plane of stabilizing and improving the party's basic policy for the rural areas. The management of agricultural contracts is an important policy matter as it concerns the peasants' vital interests and affects a very large number of people. The people's

governments at all levels must strengthen leadership, urge and support the departments responsible for the task to do a good job. Departments of agricultural administration and rural work departments at all levels should place the management of agricultural contracts on their agenda, and major leading cadres should get personally involved in the task.

2. Greater efforts should be made to strengthen the legal system concerning agricultural contracts. The people's governments at all levels should adopt effective measures to bring the management of agricultural contracts into line with the legal system. The provinces (regions and cities), which have already promulgated laws and regulations governing agricultural contracts, should make sure that the laws are followed, pay serious attention to enforcement, and also adopt appropriate supporting measures. The provinces (regions and cities), which have not yet done so, should formulate, promulgate, and implement laws and regulations governing agricultural contracts as quickly as possible, in light of their actual conditions and with reference to the experiences and practices of other provinces (regions and cities).

3. Agricultural contracts should be managed according to law. Once signed according to law, the agricultural contracts become legally binding and may not be changed or terminated by any organization or individual without authorization. The more than 300 million rural contracts that have been signed so far are all legally binding and should be protected. The management of agricultural contracts, including signing and witnessing of contracts, determining and handling of invalid contracts, changing or termination of contracts, and mediation and arbitration in contract disputes, must be conducted strictly according to legal procedures. The phenomenon of unilaterally breaking or scrapping contracts must be stopped. In the management of agricultural contracts, it is imperative to put an end to such conducts as coercion, infringing on others' rights at will, abusing power, and so forth.

4. Rural managerial and administrative departments at all levels should sum up experience, increase understanding of policies, strengthen management according to law, do a better job in fulfilling the various responsibilities in managing agricultural contracts, and pay attention to spreading legal knowledge among the masses of the peasants.

#### Analysis of 1992 Grain Market

93CE0023A Beijing JIAGE LILUN YU SHIJIAN  
[PRICE:THEORY AND PRACTICE] in Chinese  
No 8, 20 Aug 92 pp 55-56

[Text] 1. Since this year, the market price of grain continued to rise, and needs our close attention. Though 1991 was the most stable year in terms of the market price of grain since reform of the agricultural commodity circulation system, from January to April this year the

average price of six main grains in markets rose again month by month. In April, the average price per kilogram was 0.879 yuan, 4.1 percent higher than the beginning of the year; of which the prices of corn, soybeans, and wheat had the largest increases of 5.6 percent, 9.7 percent, and 1.9 percent respectively. In April, the market price of grain rose again to the level in November 1988 (an inflationary period).

2. It may be difficult to achieve a gross grain output of 890 billion jin in 1992.

Grain output in China increases at an average rate of 3 percent annually; based upon this calculation, grain output this year will be 890 billion jin. But due to the influences of the following factors, it is estimated that the grain output this year will hardly achieve the goal mentioned above.

**Area:** According to a random sampling by the Agriculture Investigation Team in the State Statistical Bureau, the grain growing area this year is 1.661 billion mu, 21 million mu less than last year, of which the area of summer grain reduced by more than 4 million mu, the areas of early rice reduced 3 million mu, and the area of autumn grain reduced almost 14 million mu. Based on the calculation of the per mu yield last year, grain output will reduce 11.4 billion jin.

**Weather:** The spring sowing and management of grain this year was influenced by droughts in the north and floods in the south. Winter crops were late and weak in sprouting, and there was a serious lack of seedlings. The spring sowing crops such as spring wheat, due to the drought in the northwest, were difficult to sow. The continuous low temperature and the wet weather in the mid-lower areas of the Chang Jiang and the southern part of China, delayed the planting and transplant time five-10 days on average. The whole situation of summer grain and early rice production is not optimistic. The climate for autumn crops will be an important decisive factor for the poor harvest this year.

**Price:** Since 1979, the fluctuation curve of grain price and grain output indicates that if the grain price last year rises, grain output the next year will tend to increase; and vice versa. If the grain price is at the bottom of the fluctuation curve, grain output next year will also be at the bottom of the fluctuation curve of grain price, thus

grain output in 1992 will probably reach the bottom of grain output for recent years.

3. Sales in grain departments will probably fall again.

As the whole economy is improving, society's grain consumption will increase, but sales in grain departments will hardly increase if there is no big calamity or change in policies. It is estimated that sales in grain departments this year will fall again. The reasons are:

In fiscal year 1991, there were two major rises of the unified sale price of grains, which caused some residents to purchase a large amount of grains. In March this year (end of 1991 grain year) sales at negotiated prices was 19.2 billion jin more than the same period last year, which was equal to the sales in one and half months under normal circumstances. Because of this, it is estimated that the sales in the fiscal year of 1992 will reduce.

After implementing the same purchase and sale price of grain, the differences between market prices of grain became small, thus more residents would purchase from the free market, which caused the decrease of sales in grain departments. For example Guangdong and Hainan implemented the same purchasing and sale prices. State sales in these two provinces in 1991 decreased, Guangdong reduced 11.4 percent, Hainan reduced 49.1 percent, and sales at the negotiated price did not increase. In terms of gross sales in grain departments, the rate of increase in Guangdong was 14 percent lower than the average level in China, and Hainan reduced by 35.7 percent, a lot lower than last year.

In the competition of sales through multichannels, grain departments are losing markets. From the pilot projects of deregulating grain in several counties, the proportion of the markets owned by some grain departments fell under 50 percent. The deregulation of grain price in Guangdong, Hainan, Fujian and other provinces this year, the implementation of the same purchase and sale prices, and management through multichannels in other provinces, make it hard to avoid the fall of the sales in grain departments.

**Cash Income of Rural Households Jul-Sep 1992**

*HK2311102292 Beijing CEI Database in English  
23 Nov 92*

[Text] Beijing (CEI)—Following is a list showing the per capita cash income of rural households from July to September 1992 released by the State Statistical Bureau:

		(Unit: Yuan)
	7-9/92	7-9/91
Total	181.84	158.45
1. From collective production	13.77	10.60
2. From economic cooperative entity	0.41	0.35
3. From selling farm produce, sideline-products	106.45	99.93
4. From other nonproductive activities	19.69	16.55
5. From savings and loans		[no figures as received]

**Cash Expenditure of Rural Households Jul-Sep 1992**

*HK2311102092 Beijing CEI Database in English  
23 Nov 92*

[Text] Beijing (CEI)—Following is a list showing the per capita cash expenditure of rural households from July to September 1992 released by the State Statistical Bureau:

		(Unit: Yuan)
	7-9/92	7-9/91
<b>Total Expenditure</b>	<b>175.72</b>	<b>153.98</b>
1. Expenditure in production	57.91	45.74
2. Living cost	99.13	86.11
a. for consumer goods	80.97	71.84
b. for enjoyment	18.16	14.27
3. Other nonproduction expenditure	10.61	9.04
4. Expenditure of savings and loans	[no figures as received]	

**Recent Development of President-Premier Friction**  
*92CM0044A Taipei HSIN HSIN WEN [THE JOURNALIST] in Chinese No 293, 23 Oct 92 pp 22-24*

[Article by Chen Yu-xin (7115 5940 9515): "The Premier Snatched the President's Lines and the President Took Over the Premier's Position"]

[Excerpts] [passage omitted] The strangeness and variation of the Li-Hao relationship formed between President Li Teng-hui and Premier Hao Po-tsung of the Executive Yuan has greatly exceeded the Li-Li relationship between Li Teng-hui and Li Huan. Outwardly everything appears calm, but actually, underground streams are hidden in the relationship. Particularly, the recent atmosphere is even more unusual, some sensitive phenomena are seen in politics only over the last 40 years.

Due to the "one China, one Taiwan" debate, Hao Po-tsung unscrupulously talked in the Legislative Yuan about controversial issues concerning the constitution. He even asserted: "I am still on the throne, 'one China, one Taiwan' is not allowed." He even talked about what the president should do, or "that would be inconceivable." The open talk Hao Po-tsung gave exceeded his premiership, explaining once again the role of the premier of the Executive Yuan as he was answering questions raised by legislators, as if he was not only the president's representative, but also some parts of his talk were very much like the president's official statement.

Conversely, Li Teng-hui interfered with the political affairs that are under the jurisdiction of the Executive Yuan. His talk about the land tax increase caused the resignation of Finance Minister Wang Chien-hsuan. This is the most obvious example. Also, recently he met with senior advisor Chiu Chuang-huan. In addition to national identity, and cross-strait relations, both sides also talked about the land tax increase, stock markets, and the 18th project bid. After the news was disclosed, political conjecture was aroused, the presidency and Chiu Chuang-huan were forced to urgently clarify the content of their talk, in view of Chiu Chuang-huan's usual personality of prudence and cautiousness, he should not have committed the errors he spoke of during his clarification. Thus, even the nature and content of their talk were mysterious.

At the very beginning, Li Teng-hui let Hao Po-tsung go ahead for a real fight so that he has recently "redressed" the political affairs of the Executive Yuan. Consequently, the demarcation between Li and Hao's power and responsibility began to be blurred. [passage omitted]

The reason why there appeared a phenomenon of role misplacement between the Li and Hao relationship that originally "feared" imbalance was first due to Hao Po-tsung's sense of crisis.

Under the background that the nontraditionalists have mustered a strong force, and Hao Po-tsung heads the

faction that has the actual strength, it is generally believed that Li Teng-hui does not have many opportunities to choose from in forcing Hao Po-tsung to step down "reasonably," without causing great political turbulence. The first opportunity is next year when the newly elected legislators enter the Legislative Yuan, creating the reuse of the practice of the premier's approving power. Based on this reason, replacement of Hao Po-tsung could be made to escape the shadow of being impeded by the nontraditionalists, and to genuinely unfold an era of Li Teng-hui in the next three years. The second opportunity is based on the assumption that Li Teng-hui still seeks a second term for the presidency. The current premier can be replaced at that time.

The nontraditionalists do not worry about the second opportunity because it will take a long time, and there will be a lot of changes. In addition, the actual strength of the nontraditionalists in the Executive Yuan, the Legislative Yuan, and even among the party representatives will be in a state of full-fledged wings at that time. They are likely to have room for negotiation. However, they have great apprehensions about next February. They fear that Li Teng-hui may use the excuse of election disadvantage and political harmony to launch a surprise attack against Hao Po-tsung so that he can appoint another premier at an appropriate time. In fact, the traditionalists also have disclosed an atmosphere of arguing about Hao Po-tsung being inappropriate as premier in order to pave the path for Li Teng-hui's personnel arrangements.

Therefore, Hao Po-tsung took the initiative to invite Li Teng-hui to visit the exhibition on the national development plan. This is seen as an arrangement out of an extremely shrewd and cunning mind. It not only molds a superficial phenomenon that Li and Hao did not fail to keep on good terms, but also means that Hao Po-tsung demonstrated to Li Teng-hui that he and the Six-Year National Development Plan were a "destiny," if there is a national development plan, there is Hao Po-tsung, without Hao Po-tsung the national development plan will be unable to be pushed forward. This type of practice was seen as early as when Hao Po-tsung was the Chief of General Staff. To always extend his term of service, Hao Po-tsung combined his term of service and the military build-up plan, and Chiang Ching-kuo was left with no other alternatives but to let General Hao command the military on his own.

Unexpectedly, Hao Po-tsung, who has always enjoyed quizzing everybody, was now defeated by Li Teng-hui several times, and Hao Po-tsung displayed the appearance of scratching his head in perplexity. This can't help being a little flaw in his familiarity with the national development plan.

Also, he went all out to hold his position of "one China." He went so far as to clear away the noise out of the party in the name of the president. Of this effort some partial political effect can be seen as one of the fights in

defending his premiership. Because the political situation is clear, Hao Po-tsун is the patron saint of "one China," and Li Teng-hui is the symbol or image projected by any pragmatic principles. If the principle of "one China" collapses within the Kuomintang as a result of this, Hao Po-tsун will be the first bound to collapse. He also will become the target of "one China, one Taiwan" or other pragmatic principles.

Several members of Collective Wisdom shook the "one China" policy, which naturally caused Hao Po-tsун apprehensions. Consequently, he requested Li Teng-hui face to face to handle this, and he went all out in the Legislative Yuan to talk about what the president should not do, without paying the slightest attention to the ethics of officialdom.

Although Hao Po-tsун said that he was "helping President Li fight against Taiwan independence," Li Teng-hui may not be grateful due to different levels of help, he even could have been more of a hindrance than a help. Li Teng-hui may fully agree with the goal of "one China," and Hao Po-tsун's defense speech. It is also possible that Li agrees with this goal, but is not satisfied with his speech. Also, disagreement with both the goal and the speech is not unlikely. If the first case is true, there would be no problem in Hao's overstepping authority. But if the second or the third is true, one more gigantic chasm may have been carved out between Li and Hao.

Hao Po-tsун's sense of crisis threw him off balance. Naturally, Li Teng-hui could feel the information signaled by this phenomenon. He met with the longestranged Chiu Chuang-huan, and once again had a confidential exchange of views to gradually isolate Hao Po-tsун. This is one of his responses.

Of course, Li Teng-hui also bears the burden of an uncertain election. He cannot afford to let the election situation worsen due to his desire to replace Hao Po-tsун, because this kind of result could cause him to taste the bitter fruit at the 14th Party Congress, and a back thrust from the nontraditionalists.

What he chose to do was to disregard the demarcation between the presidency and the Executive Yuan, and interfered with the political affairs that are most controversial and have the deepest public complaints. By so doing he could not only retrieve the hearts of some people, but also prove that what he did was not something that should not have been done, which was also practiced by Hao's cabinet.

Well water has intruded into river water, or the other way around. This must be the result of a breach on both sides. Li Teng-hui's breach is the cross-strait relations and Hao Po-tsун will make "one China" a big issue, and press Li Teng-hui to continuously declare where he stands. Hao Po-tsун's breach is the people's complaints and harmony between the government and the public. Li Teng-hui naturally must take care of every single thing personally on these issues.

NTIS  
ATTN: PROCESS 103  
5285 PORT ROYAL RD  
SPRINGFIELD VA

2

22161

BULK RATE  
U.S. POSTAGE  
PAID  
PERMIT NO. 352  
MERRIFIELD, VA.



This is a U.S. Government publication. Its contents in no way represent the policies, views, or attitudes of the U.S. Government. Users of this publication may cite FBIS or JPRS provided they do so in a manner clearly identifying them as the secondary source.

Foreign Broadcast Information Service (FBIS) and Joint Publications Research Service (JPRS) publications contain political, military, economic, environmental, and sociological news, commentary, and other information, as well as scientific and technical data and reports. All information has been obtained from foreign radio and television broadcasts, news agency transmissions, newspapers, books, and periodicals. Items generally are processed from the first or best available sources. It should not be inferred that they have been disseminated only in the medium, in the language, or to the area indicated. Items from foreign language sources are translated; those from English-language sources are transcribed. Except for excluding certain diacritics, FBIS renders personal names and place-names in accordance with the romanization systems approved for U.S. Government publications by the U.S. Board of Geographic Names.

Headlines, editorial reports, and material enclosed in brackets [] are supplied by FBIS/JPRS. Processing indicators such as [Text] or [Excerpts] in the first line of each item indicate how the information was processed from the original. Unfamiliar names rendered phonetically are enclosed in parentheses. Words or names preceded by a question mark and enclosed in parentheses were not clear from the original source but have been supplied as appropriate to the context. Other unattributed parenthetical notes within the body of an item originate with the source. Times within items are as given by the source. Passages in boldface or italics are as published.

#### SUBSCRIPTION/PROCUREMENT INFORMATION

The FBIS DAILY REPORT contains current news and information and is published Monday through Friday in eight volumes: China, East Europe, Central Eurasia, East Asia, Near East & South Asia, Sub-Saharan Africa, Latin America, and West Europe. Supplements to the DAILY REPORTS may also be available periodically and will be distributed to regular DAILY REPORT subscribers. JPRS publications, which include approximately 50 regional, worldwide, and topical reports, generally contain less time-sensitive information and are published periodically.

Current DAILY REPORTS and JPRS publications are listed in *Government Reports Announcements* issued semimonthly by the National Technical Information Service (NTIS), 5285 Port Royal Road, Springfield, Virginia 22161 and the *Monthly Catalog of U.S. Government Publications* issued by the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.

The public may subscribe to either hardcover or microfiche versions of the DAILY REPORTS and JPRS publications through NTIS at the above address or by calling (703) 487-4630. Subscription rates will be

provided by NTIS upon request. Subscriptions are available outside the United States from NTIS or appointed foreign dealers. New subscribers should expect a 30-day delay in receipt of the first issue.

U.S. Government offices may obtain subscriptions to the DAILY REPORTS or JPRS publications (hardcover or microfiche) at no charge through their sponsoring organizations. For additional information or assistance, call FBIS, (202) 338-6735, or write to P.O. Box 2604, Washington, D.C. 20013. Department of Defense consumers are required to submit requests through appropriate command validation channels to DIA, RTS-2C, Washington, D.C. 20301. (Telephone: (202) 373-3771, Autovon: 243-3771.)

Back issues or single copies of the DAILY REPORTS and JPRS publications are not available. Both the DAILY REPORTS and the JPRS publications are on file for public reference at the Library of Congress and at many Federal Depository Libraries. Reference copies may also be seen at many public and university libraries throughout the United States.